

**A COMPARATIVE LEGAL STUDY OF THE DILUTION OF  
REGISTERED TRADE MARKS IN SELECTED  
JURISDICTIONS TO FURTHER THE DEVELOPMENT OF  
THE REMEDY IN SOUTH AFRICAN LAW**

by

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## **DECLARATION**

I, the undersigned, hereby declare that the work contained in this dissertation is my own original work and that I have not previously in its entirety or in part submitted it at any university for a degree.



## SUMMARY

Trade marks are among the most valuable commodities of the modern business world. Adequate protection for trade marks to prevent the misappropriation of their incredible marketing power is therefore important.

The aim of this dissertation is to make recommendations regarding the further development of existing South African law regarding the protection of registered trade marks against dilution, particularly by the courts. Current statutory protection is examined and compared with trade-mark law in the United States and the European Union.

Although the concept of dilution originated in Germany, most of its development took place in the United States, starting in 1927 with an article by Frank Schechter. Dilution occurs when the awareness that a specific mark signifies a single product from a single source changes to an unmistakable awareness that the same mark signifies various things from various sources. The primary theories as to how dilution occurs are blurring and tarnishment. Although the dilution concept is widely recognised, there is still a debate amongst legal scholars on whether trade marks deserve protection against dilution.

The extent of protection that the law gives to trade marks largely depends on the socio-economic functions that a trade mark is perceived to fulfil. The original source or origin function is protected by the traditional infringement provisions. The identification or distinguishing function, quality function and advertising function subsequently gained recognition. The advertising function is statutorily recognised in various jurisdictions, which prevents trade-mark dilution.

Statutory recognition of dilution in the United States first occurred in State law from 1947 onwards. Protection is generally given to distinctive or strong trade marks where a similar mark is used on dissimilar goods in the absence of confusion in such a way that there is a likelihood that the reputation of the senior mark will be injured. The parameters of the concept were developed and refined mainly through case law. Federal

protection against dilution was only introduced in 1995. The new Act, although widely welcomed, also brought some unpredictability and interpretation problems.

The first statutory dilution protection for trade marks in Europe is found in the Uniform Benelux Trade Marks Act. In 1989 the European Union adopted the Trademark Directive, with the aim of harmonising the legal protection afforded to trade marks. Its “dilution” provisions were incorporated into the United Kingdom’s Trade Marks Act of 1994. The sometimes conflicting interpretations of these provisions by the English courts and the Court of Justice of the European Communities are discussed.

The South African Act shows a substantial degree of harmony with legislation in the United Kingdom and other European countries. Aspects of the wording of the dilution provisions are however open to interpretation by the courts. Until the end of 2003 there was only one major trade-mark dilution case decided by a South African court, namely *SAB v Laugh It Off Promotions*, which is discussed in detail.

The dissertation concludes with recommendations to aid South African courts in the future interpretation and application of the dilution provisions. Amendments to the legislation are also proposed to promote greater clarity.



## OPSOMMING

Handelsmerke is van die waardevolste kommoditeite van die moderne besigheidswêreld. Voldoende beskerming om die uitbuiting van handelsmerke se ongelooflike bemarkingskrag te verhoed, is daarom belangrik.

Die oogmerk van die proefskrif is om aanbevelings te maak vir die verdere ontwikkeling van bestaande Suid-Afrikaanse reg oor die beskerming van geregistreerde handelsmerke teen verwatering, veral deur die howe. Die bestaande statutêre beskerming word ondersoek en vergelyk met die reg op handelsmerke in the Verenigde State en die Europese Unie.

Alhoewel die verwateringskonsep sy oorsprong in Duitsland het, is die konsep hoofsaaklik in die Verenigde State ontwikkel, beginnende in 1927 met 'n artikel deur Frank Schechter. Verwatering vind plaas wanneer die bewustheid dat 'n spesifieke merk 'n enkele produk vanuit 'n enkele bron aandui verander na 'n onmiskenbare bewustheid dat dieselfde merk verskillende dinge vanuit verskillende bronne aandui. Die primêre verskyningsvorme van verwatering is vertroebeling en besoedeling. Alhoewel die verwateringskonsep wye erkenning geniet, is daar steeds 'n debat onder regsgeleerdes oor die verdienstelikheid van die beskerming teen verwatering.

Die mate van beskerming wat die reg aan handelsmerke verleen, hang grootliks af van wat gesien word as die sosio-ekonomiese funksies van 'n handelsmerk. Die aanvanklike oorsprongsfunksie word beskerm deur die tradisionele bepalings rakende inbreukmaking. Die identifiserings- of onderskeidingsfunksie, die kwaliteitsfunksie en die reklamefunksie het later erkenning gekry. Die reklamefunksie word in verskillende jursidiksies statutêr erken, wat die verwatering van handelsmerke verhoed.

In die Verenigde State het die eerste statutêre erkenning vir verwatering sedert 1947 in die wetgewing van State plaasgevind. Beskerming is normaalweg gegee aan sterk handelsmerke of handelsmerke wat kan onderskei in gevalle waar 'n soortgelyke merk



gebruik is op ongelyksoortige goedere in die afwesigheid van verwarring op so 'n wyse dat die waarskynlikheid bestaan dat die reputasie van die senior merk aangetas kan word. Die maatstawwe van die konsep is hoofsaaklik ontwikkel en verfyn in hofsake. Federale beskerming teen verwatering is eers in 1995 ingestel. Alhoewel dié nuwe wetgewing wyd verwelkom is, het dit ook onvoorspelbaarheid en interpretasieprobleme voortgebring.

Die “Uniform Benelux Trade Marks Act” het die eerste statutêre beskerming teen die verwatering van handelsmerke in Europa gebied. Die “Trademark Directive” is in 1989 deur die Europese Unie aanvaar met die doel om die wetlike beskerming van handelsmerke te harmoniseer. Die “verwaterings”bepalings is geïnkorporeer in die Verenigde Koninkryk se “Trade Marks Act” van 1994. Soms botsende interpretasies hiervan is deur die Engelse hof en die Geregshof van die Europese Unie gegee.

Die Suid-Afrikaanse wetgewing toon 'n groot mate van ooreenstemming met wetgewing in die Verenigde Koninkryk en ander Europese lande. Aspekte van die bewoording van die verwateringsbepalings is oop vir interpretasie deur die hof. Tot en met die einde van 2003 was daar slegs een belangrike saak oor handelsmerkverwatering wat deur 'n Suid-Afrikaanse hof beslis is, naamlik *SAB v Laugh It Off Promotions*. Dit word in detail bespreek.

Aanbevelings om die Suid-Afrikaanse hof in die toekoms te help met die interpretasie en aanwending van die verwateringsbepalings, word in die finale hoofstuk gemaak. Veranderinge aan die wetgewing word ook voorgestel, om groter duidelikheid te bereik.

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## TABLE OF CONTENTS

### CHAPTER 1

INTRODUCTION	1
1.1 FUNCTIONS AS BASIS FOR PROTECTION	2
1.2 POLICY CONSIDERATIONS UNDERLYING PROTECTION	4
1.3 DEFINITION OF THE DILUTION CONCEPT	6
1.4 AIM OF DISSERTATION	9
1.5 FRAMEWORK OF DISCUSSION	11

### CHAPTER 2

THE SOCIO-ECONOMIC FUNCTIONS OF TRADE MARKS	13
2.1 ORIGIN OR SOURCE FUNCTION	15
2.2 IDENTIFICATION AND DISTINGUISHING FUNCTION	20
2.3 QUALITY FUNCTION	25
2.4 ADVERTISING FUNCTION	30
2.5 INVESTMENT FUNCTION	34
2.6 PROTECTION OF TRADE MARK FUNCTIONS	34

### CHAPTER 3

THE CONCEPT OF DILUTION AND THE DILUTION DEBATE	38
3.1 THE DEVELOPMENT OF DILUTION AS A LEGAL CONCEPT	38

3.2	DIFFERENT DEFINITIONS OF DILUTION	47
3.3	TRADITIONAL INFRINGEMENT CONTRASTED WITH DILUTION	50
3.4	TYPES OF DILUTION	54
3.4.1	BLURRING	55
3.4.2	TARNISHMENT	57
3.4.3	GENERICISM/GENERICISATION	59
3.4.4	DISPARAGEMENT OR IMITATIVE DILUTION	61
3.4.5	ALTERATION	62
3.5	THE DILUTION DEBATE	62
3.5.1	ARGUMENTS AGAINST OFFERING TRADE MARKS DILUTION PROTECTION	63
3.5.1.1	THE FEAR OF MONOPOLY	63
3.5.1.2	FUNCTION HAS NOT EXPANDED	64
3.5.1.3	NO REAL INJURY	64
3.5.1.4	TRADE-MARK POLICIES	65
3.5.1.5	ADEQUATE PROTECTION	66
3.5.1.6	CREATING A COPYRIGHT IN A TRADE MARK	66
3.5.2	ARGUMENTS IN FAVOUR OF OFFERING TRADE MARKS DILUTION PROTECTION	67
3.5.2.1	EXPANDED FUNCTIONS OF TRADE MARKS	67
3.5.2.2	DILUTION DAMAGES TRADE MARKS	68
3.5.2.3	POLICIES UNDERLYING TRADE-MARK LAW	69
3.5.2.4	TRADE MARKS THAT CANNOT BE THE SUBJECT OF CONFUSION	71



3.5.3	ROLE OF THE STATUS OF THE TRADE-MARK PROPRIETOR'S RIGHT IN THE DILUTION DEBATE	71
3.5.4	CONCLUSION	81

## CHAPTER 4

	LAW OF THE UNITED STATES OF AMERICA	84
4.1	AMERICAN STATUTORY TRADE-MARK LAW PRIOR TO 1947	84
4.2	FEDERAL TRADE-MARK LAW SINCE 1947	86
4.3	PROTECTION AGAINST DILUTION UNDER STATE DILUTION LAWS	90
4.3.1	PROTECTION AND RELATED PROBLEMS	90
4.3.2	SOLUTIONS OFFERED	98
4.3.3	CASES UNDER STATE DILUTION LAWS	100
4.3.3.1	SECOND CIRCUIT CASES	100
(i)	The similarity of the marks	107
(ii)	The similarity of the products	108
(iii)	The sophistication of the consumers	109
(iv)	Predatory intent	109
(v)	The renown of the senior mark	111
(vi)	The renown of the junior mark	111
(vii)	Balancing the factors	112
(viii)	Comments on the "Sweet Test"	112
4.3.3.2	SEVENTH CIRCUIT CASES	116
4.3.3.3	NINTH CIRCUIT CASES	121

4.3.3.4 ELEVENTH CIRCUIT CASES	123
4.3.3.5 CONCLUSION	124
4.4 FEDERAL DILUTION PROTECTION BEFORE THE FEDERAL ACT	124
4.5 THE TRADEMARK LAW REVISION ACT OF 1988	128
4.6 RESTATEMENT (THIRD) OF UNFAIR COMPETITION (1995)	129
4.7 THE FEDERAL TRADEMARK DILUTION ACT OF 1995	130
4.7.1 DEFINITION OF DILUTION IN THE ACT	133
4.7.2 DISCUSSION OF THE DIFFERENT FACTORS	135
4.7.3 EXCEPTIONS TO LIABILITY UNDER THE ACT	137
4.8 THE TRADEMARK AMENDMENTS ACT OF 1999	140
4.9 CRITICAL ANALYSIS AND POTENTIAL IMPACT OF THE FEDERAL DILUTION ACT	141
4.10 CASE LAW UNDER THE FEDERAL TRADEMARK DILUTION ACT	145
4.10.1 IDENTICAL OR SIMILAR MARK?	145
4.10.2 DISTINCTIVENESS	147
4.10.3 FAMOUS MARKS	149
4.10.4 LIKELIHOOD OF DILUTION V/S ACTUAL DILUTION	158
4.10.5 "CONFUSION" UNDER THE FEDERAL ACT	180
4.10.6 CASES ON BLURRING	181
4.10.7 CASES ON TARNISHMENT	183
4.10.8 RETROACTIVITY OF THE ACT	186
4.11 REFORMING THE FEDERAL TRADEMARK DILUTION ACT?	188
4.12 SYNOPSIS	189



## CHAPTER 5

EUROPEAN UNION LAW	196
5.1 INTRODUCTION	196
5.2 STATUTORY DEVELOPMENT OF TRADE-MARK LAW IN EUROPE	198
5.3 EARLY ORIGINS OF DILUTION IN EUROPE	201
5.4 THE EUROPEAN ECONOMIC COMMUNITY	202
5.4.1 BACKGROUND AND AIM	202
5.4.2 COMPOSITION AND FUNCTIONS	202
5.5 THE EUROPEAN UNION AND THE TRADEMARK DIRECTIVE	204
5.5.1 BACKGROUND TO THE DIRECTIVE	204
5.5.2 FINAL ADOPTION AND AIM	205
5.5.3 DILUTION PROVISIONS	206
5.5.4 INFLUENCE OF THE BENELUX LAW	208
5.5.5 MEANING OF "LIKELIHOOD OF ASSOCIATION"	209
5.6 THE COMMUNITY TRADE MARK	211
5.7 LAWS OF SELECTED MEMBER STATES OF THE EUROPEAN UNION	214
5.7.1 BENELUX LAW	214
5.7.1.1 GENERAL	214
5.7.1.2 COURT SYSTEM IN THE BENELUX	215
5.7.1.3 "LIKELIHOOD OF ASSOCIATION" IN THE BENELUX LAW	216
5.7.1.4 "USE IN RELATION TO GOODS AND SERVICES"	218



5.7.1.5 ARTICLE 13A(2) OF THE UNIFORM BENELUX TRADE MARKS ACT	219
5.7.1.6 INFLUENCE OF THE TRADEMARK DIRECTIVE ON BENELUX LAW	221
5.7.1.7 THE NEW BENELUX TRADE MARKS ACT	223
5.7.2 THE UNITED KINGDOM	223
5.7.2.1 GENERAL	223
5.7.2.2 THE PROPOSED INTERPRETATION OF SECTIONS 10(2) &(3)	226
5.7.2.3 CASES ON SECTION 10(2)	228
5.7.2.4 CASES ON SECTION 10(3)	239
5.7.2.5 THE KEY CONCEPTS OF SECTION 10(3)	246
(i) "Use in the Course of Trade"	246
(ii) "Without Due Cause"	247
(iii) "Unfair Advantage or Detriment"	248
(iv) "Reputation"	254
(v) "Distinctive Character or Repute"	257
5.7.2.6 COMPARATIVE ADVERTISING IN THE UK	257
5.7.2.7 LOOKALIKES IN THE UK	259
5.8 JUDGMENTS OF THE COURT OF JUSTICE OF THE EUROPEAN COMMUNITIES (CJEC)	261
5.8.1 THE INTERPRETATION OF ARTICLES 4(1)(b) AND 5(1)(b)	261
5.8.2 THE INTERPRETATION OF ARTICLE 5(2)	273
5.9 SYNOPSIS	280

## CHAPTER 6

THE SOUTH AFRICAN SITUATION	286
6.1 HISTORY OF THE SOUTH AFRICAN TRADE-MARK LEGISLATION	286
6.2 REGISTRATION OF TRADE MARKS IN SOUTH AFRICA	288
6.2.1 THE REGISTRATION PROCESS	288
6.2.2 DEFENSIVE REGISTRATIONS	291
6.2.3 REGISTRABILITY UNDER THE 1993 ACT	293
6.3 BACKGROUND TO THE DILUTION PROVISIONS OF THE 1993 ACT	297
6.3.1 COMMON-LAW POSITION	297
6.3.2 PREVIOUS LEGISLATION	299
6.3.3 THE INFLUENCE OF THE UNITED KINGDOM AND EUROPEAN LAW	299
6.3.4 SOUTH AFRICA'S INTERNATIONAL OBLIGATIONS	301
6.3.4.1 THE PARIS CONVENTION	301
6.3.4.2 THE GATT AGREEMENT ON THE TRADE RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS	303
(i) Three Basic Principles	305
(ii) Specific Provisions Regarding Trade Marks	305
(iii) Dilution Protection in the TRIPS Agreement	306
6.4 DISCUSSION OF THE DILUTION PROVISIONS AND CASES	307



6.4.1	INTRODUCTION	307
6.4.2	THE DILUTION PROVISIONS	308
(i)	Use in the Course of Trade	309
(ii)	Use ... in Relation to Any Goods or Services	309
(iii)	Use of the Registered Mark or a Mark Similar Thereto	310
(iv)	Well known	311
(v)	Likely to Take Unfair Advantage of, or be Detrimental to, the Distinctive Character or Repute	315
(vi)	Notwithstanding the Absence of Confusion or Deception	318
(vii)	Remedies	319
6.4.3	COMPARATIVE ADVERTISING	319
6.4.4	CASES	320
6.5	THE NEED FOR DILUTION PROTECTION	325

## CHAPTER 7

REFINING STATUTORY DILUTION PROTECTION IN THE LIGHT OF THE COMPARATIVE SURVEY		327
7.1	INTRODUCTION	327
7.2	SOUTH AFRICA'S DILUTION PROVISIONS COMPARED TO THOSE OF US FEDERAL LAW	328
7.2.1	INTRODUCTION	328
7.2.2	THE DILUTION PROVISIONS	329
(i)	Well known/famous	330



(ii)	Unfair advantage or detriment to distinctive quality or repute/dilution of distinctive quality	335
(iii)	Exceptions	340
7.3	SOUTH AFRICA'S DILUTION PROVISIONS COMPARED TO THOSE OF EUROPEAN UNION LAW	341
7.3.1	INTRODUCTION	341
7.3.2	THE DILUTION PROVISIONS	342
(i)	Identical or similar mark/sign	345
(ii)	Any goods or services/non-similar goods/services	346
(iii)	Without due cause	347
(iv)	Well known/reputation	348
(v)	Likely to take/takes unfair advantage of, or be detrimental to, the distinctive character or repute	349
(vi)	Notwithstanding the absence of confusion or deception	352
7.4	SUMMARY OF RECOMMENDATIONS	354
7.5	CONCLUSION	355

## **ADDENDUM**

CONSTITUTIONAL COURT OF SOUTH AFRICA	
LAUGH IT OFF v SOUTH AFRICAN BREWERIES	
CASE CCT 42/04 – 27 MAY 2005	357
1.	INTRODUCTION 357
2.	FACTUAL BACKGROUND 358
3.	THE ISSUE BEFORE THE COURT 358

4.	THE JUDGMENT	358
5.	COMMENTS ON THE JUDGMENT	361
5.1	“SUBSTANTIAL ECONOMIC DETRIMENT”	362
5.2	TARNISHMENT	364
5.3	LIKELIHOOD OF DILUTION VS ACTUAL DILUTION	365
5.4	EXCLUSIONS IN SECTION 16	366
5.5	PARODY	367

<b>BIBLIOGRAPHY</b>	369
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ARTICLES	369
BOOKS	378
CASE LAW	
SOUTH AFRICA	379
UNITED STATES	381
EUROPE	388
INTERNATIONAL DOCUMENTS	391
STATUTES	392



## CHAPTER 1

### INTRODUCTION

“What’s in a name? That which we call a rose, by any other name would smell as sweet.”<sup>1</sup>

In the modern world of trade marks the above quotation is, however, not completely true. Today the words used to identify products make a substantial contribution to what consumers associate with these products. For this reason the growth of a business in many instances depends to a large extent on first establishing and then promoting the trade marks linked to that business. Consumers are relying more and more on trade marks to make informed decisions about the products they want to buy. In the modern age of the Internet, customers do not even see the physical products before they buy them.<sup>2</sup> Trade marks also enable one seller to compete more effectively with another. They are essential in a competitive economy to promote competition, lower consumer search costs dramatically and heighten the level of product quality.<sup>3</sup> Trade marks have thus become one of the most valuable commodities of the modern business world.<sup>4</sup> Trade-mark proprietors expend vast sums of money through advertising to build up the reputation and advertising value or selling power of their trade marks.<sup>5</sup> There is also a growing recognition of a trade mark as an asset in itself, that is separate from the business in which and the goods and

<sup>1</sup> The Complete Works of William Shakespeare *Romeo and Juliet* act II sc. ii p 771 (1980) Atlantis London.

<sup>2</sup> Lee DH “Remedying Past and Future Harm: Reconciling Conflicting Circuit Court Decisions Under the Federal Trademark Dilution Act” (2002) 29 *Pepperdine Law Review* 689.

<sup>3</sup> Klieger RN “Trademark Dilution: The Whittling Away of the Rational Basis for Trademark Protection” (1997) 58 *University of Pittsburgh Law Review* 789 at 854-855.

<sup>4</sup> See “Verrigtings van Uitgebreide Openbare Komitee – Volksraad; Wetsontwerp op Handelsmerke (Debat oor Tweede Lesing)” Friday, 10 December 1993 15187-15190; Memorandum on the Objects of the Draft Trade Marks Bill, 1992 § 1.2 at 101, Government Gazette, 30 August 1991.

<sup>5</sup> In *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208 at 213, 1999 U.S. App. LEXIS 20786, 51 U.S.P.Q.2d (BNA) 1882 (2<sup>nd</sup> Cir 1999) Pepperidge Farm gave evidence to the effect that it had spent more than \$120 million between 1995 and 1998 on promoting its GOLDFISH trade mark in the United States. In 1996 alone, Ringling Bros.-Barnum spent about \$19 million advertising and marketing their trade mark THE GREATEST SHOW ON EARTH for their circus amongst the public. See *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel* 170 F.3d 449 at 451, 1999 U.S. App. LEXIS 4179, 50 U.S.P.Q.2d 1065 (4<sup>th</sup> Cir 1999). Lee (2002) 690 notes that companies invest anywhere between nineteen and forty million dollars a year to maintain the strength of their trade marks.



services for which it is used.<sup>6</sup> It is therefore important that trade marks, especially widely recognised trade marks, have adequate protection against other companies trying to exploit the incredible marketing power of these trade marks.

## 1.1 FUNCTIONS AS BASIS FOR PROTECTION

The extent of the protection which the law gives to trade marks will largely depend on the socio-economic functions<sup>7</sup> that a trade mark is perceived to fulfil. Traditionally trade marks were seen as indicators of the source of origin of the goods sold under the trade marks.<sup>8</sup> In the early development of trade-mark law trade marks served as indicators of the actual producer of the goods on which they were affixed.<sup>9</sup> This position has changed due to the complexities of modern trade and the national and international distribution of goods through the importer and retailer to the consumer. The source function was gradually given less emphasis by the courts and as early as 1927 Schechter,<sup>10</sup> who is considered the father of dilution law, stated that trade marks indicate only that all the goods with a specific trade mark on them emanate from the same, possibly anonymous, source.<sup>11</sup> This means that as long as the consumers know that products with a certain trade mark on them emanate from the same source, it does not matter if that source is unknown to the consumers.

In legislation another function of trade marks was recognised. Under the definition of “trademark” in federal legislation in the United States, namely the Lanham Act of 1946, for example, the emphasis is placed on the identifying and distinguishing function of a trade mark.<sup>12</sup>

<sup>6</sup> Wheeldon R “Trade Mark Dilution – What is it?” Lecture Notes 1. McCarthy JT *McCarthy on Trademarks* 4<sup>th</sup> ed (1996) West Group St Paul Minnesota § 24:100 states that the dilution doctrine, which is the focus of this dissertation, protects a property interest in a trade mark. See also McCarthy (1996) § 24:71; Webster CE & Morley GE *Webster & Page South African Law of Trade Marks, Unlawful Competition, Company Names and Trading Styles* 4<sup>th</sup> ed (1997) Butterworths Durban par 12.24. See further Chapter 3.5.3 “Role of the Status of the Trade-mark Proprietor’s Right in the Dilution Debate” *infra* for the property debate.

<sup>7</sup> See Chapter 2 “The Socio-Economic Functions of Trade Marks” *infra* for a detailed discussion of these functions.

<sup>8</sup> Schechter FI “The Rational Basis of Trademark Protection” (1927) 40 *Harvard Law Review* 813 at 813-814; Webster & Page (1997) par 3.4.

<sup>9</sup> McCarthy (1996) § 3:8. Schechter (1927) 814 suggests that this was the case four hundred years ago.

<sup>10</sup> Schechter (1927) 816.

<sup>11</sup> Also see McCarthy (1996) § 3:9.

<sup>12</sup> Lanham Act § 45, 15 U.S.C.A. 1127 defines a trade mark as any “word, name, symbol, or device” used by a manufacturer or merchant “to identify his goods and distinguish them from those manufactured by others”. At



In order to protect a trade-mark proprietor's<sup>13</sup> interests in this source identifying function of a trade mark, governments started to protect trade marks against uses that resulted in a likelihood of confusion.<sup>14</sup> In effect, two complementary policy considerations are adhered to,<sup>15</sup> namely the protection of the trade-mark proprietor's business or goodwill on the one hand and the protection of the public from confusion and deception on the other hand. The emphasis was however rather on the protection of the public from confusion and deception. The prerequisite for the provision of protection under the traditional theory of trade-mark law is the occurrence of confusion or deception.<sup>16</sup>

Most commentators, however, agree that the functions of trade marks have further expanded over time and that trade marks today also serve an advertising function.<sup>17</sup> Trade marks are also said to function as guarantors of the consistency of quality of the trade-marked goods<sup>18</sup> and as embodiments of the proprietor's goodwill.<sup>19</sup> Remedies provided by the law against infringing uses that cause confusion offer virtually no protection for these most important functions of trade marks. To protect these functions, especially the advertising function,<sup>20</sup> the concept of dilution was developed. This doctrine thus gives protection to trade marks beyond that provided by the "likelihood of confusion" test.<sup>21</sup> The introduction of this concept of dilution was a fundamental

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that stage, although this distinguishing function has been recognised in writings and decisions, it has not been acknowledged in statutory enactments in South Africa. See Webster & Page (1997) par 3.4.

<sup>13</sup> It is accepted by most scholars that a trade mark does not confer any property right on its holder, but the term "proprietor" is nevertheless generally used in the American, as well as South African law, when referring to the holder of a trade mark. See, for example, s 15(a), 18(1), 23(2), 25, 35(3), etc. of the South African Trade Marks Act 194 of 1993; Webster & Page (1997) *inter alia* par 5.1, 5.2 (test for proprietorship), 5.3 (requirements for proprietorship). For this reason the terms "proprietor" and "proprietary rights" will be used in this dissertation. Where an alternative term is used, the reason for the deviation will be given, if this is not clear from the context.

<sup>14</sup> Vuk WT "Protecting Baywatch and Wagamama: Why the European Union Should Revise the 1989 Trademark Directive to Mandate Dilution Protection for Trademarks" (1998) 21 *Fordham International Law Journal* 861. Compare the Lanham Act of 1946 and the South African Trade Marks Act 62 of 1963 s 44.

<sup>15</sup> See Chapter 1.2 "Policy Considerations Underlying Protection" *infra* for a discussion of the policies underlying trade-mark protection.

<sup>16</sup> Wheeldon (lecture notes) 3.

<sup>17</sup> McCarthy (1996) § 3:12; Kamperman Sanders A & Maniatis SM "A Consumer Trade Mark: Protection Based on Origin and Quality" (1993) *European Intellectual Property Review* 406 at 408; Vuk (1998) 862, 877.

<sup>18</sup> McCarthy (1996) § 3:10; Kamperman Sanders & Maniatis (1993) 407; Vuk (1998) 862, 875.

<sup>19</sup> McCarthy (1996) § 3:2, 3:12; Schechter (1927) 819; Vuk (1998) 862, 876.

<sup>20</sup> Webster & Page (1997) par 12.24.

<sup>21</sup> McCarthy (1996) § 24:70.



and radical departure from all previous theories of trade-mark protection, also in South Africa,<sup>22</sup> and is still a controversial issue.<sup>23</sup> Demarcation of this concept is therefore important.

## 1.2 POLICY CONSIDERATIONS UNDERLYING PROTECTION

There are also certain policy considerations underlying the protection afforded by the law to trade marks. Some scholars name only two complementary policy objectives, namely the protection of the trader's business or goodwill and the protection of the consumer public from confusion.<sup>24</sup> Sometimes a third policy objective is also mentioned, namely the protection of competition.<sup>25</sup>

Goodwill is created by the effort (energy, time and money) a trade-mark proprietor put into the production and advertising of a product. Statutes protect this goodwill by punishing infringing uses of the trade mark by free riders or pirates, who try to gain advantage from another person's efforts to establish a reputation in the market place. In this way the trade-mark proprietor's most valuable investment is protected<sup>26</sup> and manufacturers are motivated to continue to use and invest in trade marks. Search and other transaction costs are also reduced.<sup>27</sup>

The second objective of preventing confusion makes sure that the public is not confused as to the source or origin of the goods and also reduces the search costs for consumers.<sup>28</sup> Furthermore, consumers can be sure that when they purchase a certain product bearing a particular trade mark,

<sup>22</sup> Wheeldon (lecture notes) 1. Webster & Page (1997) par 12.24 call it "a brave and progressive step by the legislature". Klieger (1997) 801 describes the dilution doctrine as "a radical alternative to consumer confusion". Martino T *Trademark Dilution* (1996) Clarendon Press Oxford 86 calls dilution the "alien intruder".

<sup>23</sup> McCarthy (1996) § 24:114; Port KL "The 'Unnatural' Expansion of Trademark Rights: Is a Federal Dilution Statute Necessary?" (1995) 85 *The Trademark Reporter* 525 at 526; Vuk (1998) 916-922; Webster & Page (1997) par 12.24. See also McCarthy (1996) § 24:114 fn 1 for a comprehensive list of writers that have argued the pros and cons of the dilution doctrine.

<sup>24</sup> Shanahan D "The Trade Mark Right: Consumer Protection or Monopoly" (1982) *The Trademark Reporter* 233 at 234; Vuk (1998) 880; Garcia JA "Trademark Dilution: Eliminating Confusion" (1995) 85 *The Trademark Reporter* 489 at 489-490 fn 3; Rogers ES "The Lanham Act & the Social Function of Trademarks" (1949) 14 *Law and Contemporary Problems* 173 at 181.

<sup>25</sup> See McCarthy (1996) § 2.1, 2.2; Vuk (1998) 880; Port KL "The Congressional Expansion of American Trademark Law: A Civil Law System in the Making" (2000) 35 *Wake Forest Law Review* 827 at 896.

<sup>26</sup> Rogers (1949) 181.

<sup>27</sup> Port (2000) 896.

<sup>28</sup> Vuk (1998) 881-882.



they get the product which they wanted.<sup>29</sup> Protecting consumers from confusion is the original legal rationale of trade-mark protection.<sup>30</sup>

The third policy objective mentioned above is the protection of competition. This actually refers to inter-brand competition, a term used to describe two competing goods which are similar yet are produced by two different companies.<sup>31</sup> This policy is used to balance the protection of trade marks on the one hand and the prevention of a monopoly in a trade mark on the other hand. A trade-mark proprietor is thus prevented from acquiring the exclusive use of something<sup>32</sup> that other persons would need to compete effectively. In this way competition is promoted. It also entails that new market entrants must have free market access.<sup>33</sup>

Signs of these policy considerations could already be found in the English common-law action for passing-off, where the trader brings the action based on a misrepresentation made to consumers. As stated above, however, there was a need for a registration system to avoid a number of deficiencies in common-law systems. For example, in an action for trade-mark protection under the common law the trade-mark proprietor had first to prove title to the mark. This was a long and expensive process of adducing evidence of the proprietor's use and resulting reputation.<sup>34</sup> Registration could, however, serve as *prima facie* proof of the proprietor's right to the exclusive use of the mark, thus giving security to the proprietor of the mark. It also gives notice to third parties, who can much more easily ascertain whether someone else has a vested right in the mark they wish to use. Furthermore, a registration system makes the enforcement of trade-mark rights possible.<sup>35</sup> A system of registration thus enables the orderly development of trade-mark rights and reduces the risk of conflict and deception.<sup>36</sup>

<sup>29</sup> Garcia (1995) 490; Rogers (1949) 181.

<sup>30</sup> Port (2000) 896.

<sup>31</sup> Vuk (1998) 882.

<sup>32</sup> The trade-mark proprietor is, for example, prohibited from acquiring exclusive use by registration of words that competitors need to describe their products in advertisements.

<sup>33</sup> Port (2000) 896.

<sup>34</sup> Webster & Page (1997) par 1.2.

<sup>35</sup> Beier F-K "Basic Features of Anglo-American, French and German Trademark Law" (1975) *International Review of Industrial Property and Copyright Law* 285 at 288; Webster & Page (1997) par 1.2.

<sup>36</sup> Shanahan (1982) 234.



### 1.3 DEFINITION OF THE DILUTION CONCEPT<sup>37</sup>

Schechter<sup>38</sup> defines dilution as “the gradual whittling away or dispersion of the identity and hold upon the public mind of the mark or name by its use on non-competing goods”. He goes on to argue that “the more distinctive or unique the mark, the deeper is its impress upon the public consciousness, and the greater its need for protection against vitiation or dissociation from the particular product in connection with which it has been used”. McCarthy<sup>39</sup> also states that the dilution theory “grants protection to strong, well-recognized marks even in the absence of a likelihood of confusion, if the defendant’s use is such as to diminish or dilute the strong identification value of the plaintiff’s mark even while not confusing customers as to source, sponsorship, affiliation or connection”. Horowitz and Prager<sup>40</sup> view dilution as “the diminishment over time of the capacity of a distinctive trade mark to identify the source of goods bearing that mark”.<sup>41</sup>

Dilution protection is therefore protection against uses of a trade mark that take advantage of the reputation of the trade mark and also against uses that damage the trade mark’s character. This concept of dilution finds application only in the case of famous or well-known trade marks.<sup>42</sup> An important feature is that it can be used in the case of non-competing products, where there need

<sup>37</sup> Chapter 3.1 “The Development of Dilution as a Legal Concept” and 3.2 “Different Definitions of Dilution” *infra* contain a more detailed exposition of the development of dilution as a legal concept and also explain the significance of the concept.

<sup>38</sup> Schechter (1927) 825.

<sup>39</sup> McCarthy (1996) § 24.70.

<sup>40</sup> Horwitz E & Prager EA “What is Dilution and How is it Proved?” (2 December 1996) *The New York Law Journal* retrieved from the <http://www.ljextra.com/trademark/dilution.html> on 21 January 1999. No page numbers provided.

<sup>41</sup> See also the attempts of the United States courts to define the concept as noted in McCarthy (1996) § 24:71. See also Chapter 3.2 “Different Definitions of Dilution” *infra*.

<sup>42</sup> See for example McCarthy (1996) § 24:70; § 24:108-112. In terms of the Federal Trade Mark Dilution Act of the United States only “famous” marks will qualify for protection. Art. 6bis of the Paris Convention refers to “well-known” marks, while the European Trademark Directive, as well as the laws of member states of the European Union require “reputation”. The South African Trade Marks Act 194 of 1993 also uses the term “well known”. See Chapter 6.4.2 “The Dilution Provisions (iv) Well known” *infra*; Chapter 7.2.2 “The Dilution Provisions (i) Well known/famous” *infra* and Chapter 7.3.2 “The Dilution Provisions (iv) Well known/reputation” *infra*.



not be, and often is not, a likelihood of confusion as to sponsorship.<sup>43</sup> According to McCarthy<sup>44</sup> the public must make some connection between the mark and both parties. In the case of classic infringement they make a mental link between the parties which leads to confusion as to sponsorship. In the case of dilution they also make some kind of mental association, but they know that there is no connection between the proprietors of the two marks. Because they now associate the mark with two different sources the first user's mark no longer serves as unique identifier of his goods and is blurred.<sup>45</sup>

Most authors on dilution mention that there are two types of dilution:<sup>46</sup> dilution by blurring and dilution by tarnishment.<sup>47</sup> Dilution by blurring is the classic or "traditional" type of dilution.<sup>48</sup> Blurring dilutes the distinctiveness of the mark and occurs when a distinctive trade mark is used in connection with other goods in such a way that the uniqueness of the mark and its capacity to identify one source is damaged or diluted.<sup>49</sup> The often quoted example of Schechter illustrates the concept very well: "if you allow Rolls-Royce restaurants, and Rolls-Royce cafeterias, and Rolls-Royce pants, and Rolls-Royce candy, in ten years you will not have the Rolls-Royce mark any more".<sup>50</sup> The Rolls-Royce trade mark would be lost because the consumer's association between the Rolls-Royce trade mark and the Rolls-Royce car would be blurred due to its presence on a plethora of different goods.<sup>51</sup>

Tarnishment,<sup>52</sup> on the other hand, impairs the quality associations that consumers have with the trade mark. It occurs when a distinctive trade mark is "linked to products of shoddy quality, or is

<sup>43</sup> Webster & Page (1997) par 12.24; Ginsburg in Visser C *The New Law of Trade Marks and Designs* (1995) Juta & Co Ltd Kenwyn 36 with reference to the Memorandum on the Objects of the Draft Trade Marks Bill, 1992 § 9.3 at 109, Government Gazette, 30 August 1991. See also the definition of dilution in the Lanham Act § 45, 15 U.S.C.A. 1127.

<sup>44</sup> McCarthy (1996) § 24:70.

<sup>45</sup> Compare with the Restatement (Third) of Unfair Competition § 25, comment f (1995).

<sup>46</sup> See Chapter 3.4 "Types of Dilution" *infra* for a detailed discussion of the different types of dilution.

<sup>47</sup> McCarthy (1996) § 24:67-69; § 24:94-95; § 24:100-107; Webster & Page (1997) par 12.24.

<sup>48</sup> McCarthy (1996) § 24:68; 24:94.

<sup>49</sup> McCarthy (1996) § 24:68; Webster & Page (1997) par 12.24; Horwitz & Prager (1996) no page numbers provided; *Hormel Foods Corp. v. Jim Henson Prods. Inc.*, 73 F.3d 497, 37 U.S.P.Q.2d 1516 (2<sup>nd</sup> Cir. 1996).

<sup>50</sup> In hearings before the House Committee on Patents 72 Cong 1<sup>st</sup> Sess p 15 (1932), quoted by Vuk (1998) 894; Webster & Page (1997) par 12.24. See also Chapter 3.4.1 "Blurring" *infra*.

<sup>51</sup> Vuk (1998) 895.

<sup>52</sup> See discussion in McCarthy (1996) § 24:104-107.



portrayed in an unwholesome or unsavory context with the result that the public will associate the lack of quality or lack of prestige in the defendant's goods with the plaintiff's unrelated goods".<sup>53</sup> The case of *Coca-Cola Co. v Gemini Rising, Inc.*<sup>54</sup> offers perhaps the best-known example of what tarnishment can constitute. The defendant, a poster manufacturer, was selling posters that had the phrase *Enjoy Cocaine* written across them in the same stylised script, colours and format as that of a registered Coca-Cola trade mark, *Enjoy Coca-Cola*.<sup>55</sup>

Vuk<sup>56</sup> mentions two other forms of dilution: disparagement and genericisation.<sup>57</sup> Trade-mark disparagement occurs when a later user alters an earlier user's mark so as to mock or denigrate it and by doing so promotes his own product.<sup>58</sup> Trade-mark genericisation can occur when a competitor uses a trade mark in a way that encourages the public to view the mark as a product type and not a source indicator or identifier.<sup>59</sup> Examples of trade marks that have become generic are aspirin, cellophane, escalator, telefax, windsurfer<sup>60</sup> and, in South Africa, also venter.

There is unanimity in trade-mark circles that there must be protection against unauthorized uses of trade marks that cause a likelihood of confusion. This is the classic type of protection against trade-mark infringement and is addressed in all trade-mark statutes. There is, however, disagreement on whether trade marks are deserving of protection against unauthorized uses that dilute the trade mark, but do not cause a likelihood of confusion. This debate, which may have far-reaching implications, will be examined in this dissertation.<sup>61</sup>

<sup>53</sup> Horwitz & Prager (1996), quoting from *Hormel Foods Corp. v. Jim Henson Prods. Inc.*, 73 F.3d 497, 37 U.S.P.Q.2d 1516 (2<sup>nd</sup> Cir. 1996). This case quotes in turn from *Deere & Co. v. MTD Prods. Inc.*, 41 F.3d 39 at 43, 32 U.S.P.Q.2d 1936 (2<sup>nd</sup> Cir. 1994).

<sup>54</sup> *Coca-Cola Co. v. Gemini Rising, Inc.* 346 F. Supp. 1183, 175 U.S.P.Q. 56 (E.D.N.Y. 1972).

<sup>55</sup> Vuk (1998) 920; McCarthy (1996) § 24:104; Webster & Page (1997) par 12.24.

<sup>56</sup> Vuk (1998) 896.

<sup>57</sup> The use of a trade mark in a generic sense is sometimes classified by commentators under blurring. See Webster & Page (1997) par 12.24.

<sup>58</sup> See Chapter 3.4.4 "Disparagement or Imitative Dilution" *infra* where this point is discussed in more detail.

<sup>59</sup> Vuk (1998) 896-897.

<sup>60</sup> Wheeldon (lecture notes) 10; Webster & Page (1997) par 12.24.

<sup>61</sup> See Chapter 3.5 "The Dilution Debate" *infra*. Part of the debate also concerns the form protection should take. Compare Wheeldon's views on the role of defensive registrations (lecture notes) 15-16.



The concept of dilution gained legal recognition in South Africa through sections 10(17)<sup>62</sup> and 34(1)(c)<sup>63</sup> of the Trade Marks Act 194 of 1993, which commenced on 1 May 1995. Although the concept of dilution was mentioned in case law before that date,<sup>64</sup> protection against dilution via the common law was not a viable option, as has been well argued by Salmon.<sup>65</sup> While the concept is now part of statutory law in South Africa, however, the word “dilution” does not appear anywhere in the Act.<sup>66</sup> The sections that can be viewed as having a bearing on dilution are still open to judicial interpretation. As can be seen from the British<sup>67</sup> experience judicial interpretation will probably ultimately determine how far protection against dilution in South Africa will stretch.<sup>68</sup>

#### 1.4 AIM OF DISSERTATION

The aim of this dissertation is to make recommendations, which could aid the South African courts in the future interpretation and application of the dilution provisions in the existing South African legislation. If necessary, amendments to the legislation will also be proposed, with a view to promoting greater clarity. Therefore, the protection of registered trade marks provided

<sup>62</sup> S 10 read as follows: “The following marks shall not be registered as trade marks or, if registered, shall, subject to the provisions of sections 3 and 70, be liable to be removed from the register: ... (17) a mark which is identical or similar to a trade mark which is already registered and which is well-known in the Republic, if the use of the mark sought to be registered would be likely to take unfair advantage of, or be detrimental to, the distinctive character or the repute of the registered trade mark, notwithstanding the absence of deception or confusion ...” See Chapter 6 *infra* for a discussion of the South African law.

<sup>63</sup> This section corresponds to s 10(17) and states that “[t]he rights acquired by registration of a trade mark shall be infringed by the unauthorized use in the course of trade in relation to any goods or services of a mark ...” and then continues as in the italicised portion of s 10(17) in the previous footnote.

<sup>64</sup> *Cambridge Plan AG & Another v Moore and Others* 1987 4 SA 820 (D & CLD) 847I-848A.

<sup>65</sup> Salmon O *Dilution as Rationale for Trade Mark Protection in South African Law* LLM UNISA (1990) at 111.

<sup>66</sup> It is interesting to note that only the Federal Trade Mark Dilution Act of the United States uses and defines the term “dilution”. See Chapter 4.7.1 “Definition of Dilution in the Act” *infra*. No other statute mentions the word, although it is commonly accepted that the relevant sections in the different statutes refer to the concept of dilution as described by commentators. The provisions are generally identified as “dilution” provisions by the fact that they grant protection against uses on non-competing products and that they do not require a likelihood of confusion or deception. See Webster & Page (1997) par 12.24 fn 23.

<sup>67</sup> According to s 108(1) the (British) Trade Marks Act of 1994 applies to England, Wales, Scotland and Northern Ireland.

<sup>68</sup> See Chapter 5.7.2 “The United Kingdom” *infra*.



by South African law against dilution will be examined by comparing South African law with trade-mark law in other selected countries.

Because the origin and development of the dilution doctrine are rooted in American jurisprudence,<sup>69</sup> United States law will be examined.<sup>70</sup> The *Policansky* case<sup>71</sup> also confirms that South African courts may consider American authority where the Roman-Dutch law is silent. The subject can therefore not be adequately researched without due reference to the dilution concept in United States law. United States law is, however, not the source of the dilution provisions in the current South African Trade Marks Act. The European Union Trade Mark Directive of 1989<sup>72</sup> and the British White Paper on the Reformation of Trade Marks Law<sup>73</sup> served this function.<sup>74</sup> The way in which the United Kingdom<sup>75</sup> deals with the concept is also relevant, because in the field of trade marks and other areas of commercial law, the English common-law system is the source from which our own law, particularly legislation, has largely evolved.

Since there has been only one significant judgment<sup>76</sup> on the dilution sections in the South African Trade Marks Act to date, the application of the dilution concept in South African law is still difficult to predict with any certainty.<sup>77</sup> Given this and the history of the dilution sections in the South African Trade Marks Act,<sup>78</sup> it may well be that South African courts will tend to interpret these sections rather narrowly, especially if they follow the approach of the courts in the United Kingdom. If this happens, the level of protection intended by the concept of dilution, as

<sup>69</sup> Webster & Page (1997) par 12.24.

<sup>70</sup> See Chapter 4 "Law of the United States of America" *infra*. Between 1947 and 1995 protection against dilution was only conceivable under State law. The emphasis will be on cases decided by the Second, Seventh, Ninth and Eleventh Circuit. The Federal Trade Mark Dilution Act came into force on 16 January 1996 and a detailed discussion of this Act and the cases decided thereunder will also form an important part of Chapter 4.

<sup>71</sup> *Policansky Bros Ltd v L.H. Policansky* 1935 AD 89 at 97, 98.

<sup>72</sup> First Council Directive to Approximate the Laws of the Member States Relating to Trade Marks.

<sup>73</sup> White Paper on the Reformation of Trade Marks Law Cm 1203; par 3.17 to 3.19 September 1990.

<sup>74</sup> Webster & Page (1997) par 12.24. See Chapter 5 "European Union Law" *infra* for a detailed discussion.

<sup>75</sup> The position in the United Kingdom is discussed in Chapter 5.7.2 "The United Kingdom" *infra*.

<sup>76</sup> *SAB International t/a Sabmark International v Laugh It Off Promotions* [2003] 2 All SA 454 (C); *Laugh It Off Promotions CC v SA Breweries International (Finance) BV t/a Sabmark International* [2004] 4 All SA 151 (SCA). The only other case worth mentioning is *Bata Ltd v Face Fashions CC* 2001 1 SA 844 (SCA). See Chapter 6.4.4 "Cases" *infra*.

<sup>77</sup> Compare with Webster & Page (1997) par 12.24.1.

<sup>78</sup> See Webster & Page (1997) par 12.24.



developed in United States law, will not be reached. This may create the impression, also in the international business world, that trade marks are not adequately protected in South Africa.

## 1.5 FRAMEWORK OF DISCUSSION

Chapter 2 contains an overview of the socio-economic functions of trade marks. As already stated, the view one takes on the protection of trade marks against dilution is closely linked to one's perception of the socio-economic functions that a trade mark is perceived to fulfil. The possible functions that a trade mark can fulfil and their development, must therefore be examined. Reference will also be made to the way in which different trade-mark statutes describe the functions of trade marks. Chapter 3 will analyse the dilution concept and its development from Schechter's pioneering publication in 1927 until 1947, when the first dilution state statute was promulgated in the United States. The chapter also examines the academic debate on whether protection against dilution is actually desirable.

In Chapters 4 and 5 a framework will be developed against which the South African situation can be portrayed. These chapters provide a contemporary study of United States Law and European Union Law. International conventions, statutory law and case law will be examined in order to determine whether there is a pattern in the interpretation of the laws of these countries. In the chapter on United States Law the focus will be on State Law in the period 1947 to 1995, with the emphasis on cases decided by the Second Circuit, Seventh Circuit, Ninth Circuit and Eleventh Circuit. From 1996 and onwards Federal Law becomes the main focus area of the dissertation as the Federal Trade Mark Dilution Act came into force on 16 January 1996. In Chapter 5 the main emphasis will be on the origin and development of the European Union's Trademark Directive. The implementation and, more importantly, the interpretation of the dilution provision by the different member states, especially the United Kingdom and the Benelux countries, will also be examined.

Chapter 6 contains a review of the development of trade-mark law in South Africa. The formal requirements for protection of registered trade marks will be briefly described. The system of

defensive registrations, the predecessor of the dilution sections, will also be discussed. This will be followed by an analysis of the sections on trade-mark dilution in the Trade Marks Act 194 of 1993, also with reference to relevant case law.

The final chapter will contain an analysis and interpretation of South African law in the light of the comparative study done in Chapters 4 and 5. Possible ways in which the South African dilution sections can be interpreted and applied will be identified. Recommendations will be made with a view to assisting the judiciary in the furtherance of the protection of registered trade marks in South Africa.



## CHAPTER 2

### THE SOCIO-ECONOMIC FUNCTIONS OF TRADE MARKS

As stated in Chapter 1, the extent of protection that is afforded to trade marks will largely depend on the socio-economic functions that a trade mark is perceived to fulfil. In general it can be said that trade marks perform four major functions:<sup>1</sup> first, the origin or source function,<sup>2</sup> secondly, the identification and distinguishing function,<sup>3</sup> thirdly, the quality function<sup>4</sup> and fourthly the advertising function.<sup>5</sup> At least one authority also recognises a fifth function, namely the investment function of trade marks.<sup>6</sup>

All of these functions are important and the recognition of one does not exclude the others. A trade mark fulfilling all these functions is referred to as a consumer trade mark

<sup>1</sup> McCarthy JT *McCarthy on Trademarks* 4<sup>th</sup> ed (1996) West Group St Paul Minnesota § 3:2 quoting *Springfield Fire & Marine Ins. Co. v. Founders' Fire & Marine Ins. Co.*, 115 F.Supp.787, 99 U.S.P.Q. 38 (D. Cal.1953):

- “1. To identify one seller's goods and distinguish them from goods sold by others;
2. To signify that all goods bearing the trademark come from or are controlled by a single, albeit anonymous, source;
3. To signify that all goods bearing the trademark are of an equal level of quality; and
4. As a prime instrument in advertising and selling the goods.”

Kamperman Sanders A & Maniatis SM “A Consumer Trade Mark: Protection Based on Origin and Quality” (1993) 11 *European Intellectual Property Review* 406 also mention these four functions, although incorporating the second one into the first. See also Rutherford BR “Misappropriation of the Advertising Value of Trade Marks, Trade Names and Service Marks” (1990) 2 *SA Merc LJ* 151; Klieger RN “Trademark Dilution: The Whittling Away of the Rational Basis for Trademark Protection” (1997) 58 *University of Pittsburgh Law Review* 789 at 790-791. See, however Diamond SA “The Historical Development of Trademarks” (1975) 65 *The Trademark Reporter* 265 at 289 who holds the opinion that there are only three different trade-mark functions, namely the identification function, the guarantee (quality) function and the advertising function, thereby denying the separate existence of the first function, referred to in the text. Callmann R “Unfair Competition without Competition” (1947) 37 *The Trademark Reporter* 175 at 188; reprinted from 95 *University of Pennsylvania Law Review* 443 also recognises three functions, the indication of origin, guarantee of grade or quality and advertising.

<sup>2</sup> Chapter 2.1 “Origin or Source Function” *infra*. From the literature on trade-mark functions it is clear that the two terms “origin” and “source” refer to the same concept and are used as synonyms. See for example McCarthy (1996) § 3:8. They will be used in the same way in this dissertation.

<sup>3</sup> Chapter 2.2 “Identification and Distinguishing Function” *infra*.

<sup>4</sup> Chapter 2.3 “Quality Function” *infra*.

<sup>5</sup> Chapter 2.4 “Advertising Function” *infra*.

<sup>6</sup> Port (personal comments to the author in May 2000). See Chapter 2.5 “Investment Function” *infra*.



by Kamperman Sanders and Maniatis.<sup>7</sup> The various economic functions of a trade mark have evolved over the years and can be seen as points on a line along which legal protection is gradually expanding.<sup>8</sup> The origin function, for example, is adequately protected by the confusion doctrine.<sup>9</sup> With the recognition of other functions of trade marks, the need for their protection increased and the confusion doctrine was no longer adequate. This is one of the arguments in favour of offering trade marks dilution protection.<sup>10</sup> A new function can, however, be protected without necessarily abandoning the protection previously provided to other functions.

Starting in the 1930s, there was, for example, a growing recognition of a new function of trade marks, namely the quality function, which developed out of the source function. This quality function, however, did not replace the source function, but supplemented it; thus, the source and quality functions can be related, but are also distinct. One practical consequence was that a trade mark from that time on did not always necessarily indicate the physical source, but could also indicate the source of the standard of the quality of goods.<sup>11</sup>

In the same way the source function and the identification function are linked. The trade mark distinguishes the goods of one manufacturer from those of another. But another way to see it is that the trade mark identifies the origin of the goods with a particular manufacturer, who may be anonymous.<sup>12</sup> Beier sees this as only one function, namely to

<sup>7</sup> Kamperman Sanders & Maniatis (1993) 406.

<sup>8</sup> Michaels A "The Function of Trade Marks – The Law and the Reality" (1980) *European Intellectual Property Review* 14; Webster CE & Morley GE *Webster & Page South African Law of Trade Marks, Unlawful Competition, Company Names and Trading Styles* 4<sup>th</sup> ed (1997) Butterworths Durban par 3.4.

<sup>9</sup> This doctrine protects trade marks from the use of the same or similar marks by others, where there is the possibility of confusion or deception. See, for example, s 34(1)(a) of the South African Trade Marks Act 194 of 1993.

<sup>10</sup> See Chapter 3.5 "The Dilution Debate" *infra* for a discussion of the arguments in favour and those against dilution protection.

<sup>11</sup> McCarthy (1996) § 3:10, § 18:40. See also Shanahan D "The Trade Mark Right: Consumer Protection or Monopoly" (1982) *The Trademark Reporter* 233 at 238 who describes the primary function of a trade mark as distinguishing the commercial origin of the goods or services and then states that the origin "has a lot to do with the quality of the product".

<sup>12</sup> Compare Beier F-K "Territoriality of Trademark Law and International Trade" (1970) *International Review of Industrial Property and Copyright Law* 48 at 61. The concept of the "anonymous" manufacturer is explained in Chapter 2.1 "Origin or Source Function" *infra*.



distinguish the goods as to their origin, which is protected by the exclusive right of use granted to the trade-mark proprietor by statute.<sup>13</sup> According to him the traditional concept of trade-mark law sees this also as the primary function of a trade mark and its primary purpose is to prevent deception as to origin.

The four major functions of a trade mark, as well as the investment function, are now discussed in more detail.

## 2.1 ORIGIN OR SOURCE FUNCTION<sup>14</sup>

In the early development of trade-mark law through to the nineteenth century,<sup>15</sup> trade marks were perceived as only indicating to consumers the physical source or origin of the goods in relation to which the mark was used.<sup>16</sup> This is also referred to as the common-law position.<sup>17</sup> Certain trade marks still have that kind of significance.<sup>18</sup> McCarthy<sup>19</sup> refers to the *MacMahan* case<sup>20</sup> of 1901 as the landmark decision of the source theory of trade marks. Here it was *inter alia* held that trade-mark licensing was impossible, unless the entire business of the licensor was transferred.<sup>21</sup> The underlying rationale was that licensing meant that persons not associated with the real manufacturing source were

<sup>13</sup> Beier (1970) 61, 63. Rutherford (1990) 151 refers to the "source-identifying function" of a trade mark.

<sup>14</sup> See fn 2 *supra*.

<sup>15</sup> Michaels (1980) 13.

<sup>16</sup> McCarthy (1996) § 3:8; § 18:39; Webster & Page (1997) par 3.4; Rutherford (1990) 151; Isaacs N "Traffic in Trade-symbols" (1930-1931) 44 *Harvard Law Review* 1210; Hanak WE "The Quality Assurance Function of Trademarks" (1974) 43 *Fordham Law Review* 363, (1975) 65 *The Trademark Reporter* 318; Shanahan (1982) 239; Gielen C "Harmonisation of Trade Mark Law in Europe: The First Trade Mark Harmonisation Directive of the European Council" (1992) 8 *European Intellectual Property Review* 262; Vuk WT "Protecting Baywatch and Wagamama: Why the European Union Should Revise the 1989 Trademark Directive to Mandate Dilution Protection for Trademarks (1998) 21 *Fordham International Law Journal* 861 at 874; Denicola RC "Some Thoughts on the Dynamics of Federal Trademark Legislation and the Trademark Dilution Act of 1995" (1996) 59 *Law and Contemporary Problems* 75 at 77; Klieger (1997) 797-798. See also Kamperman Sanders & Maniatis (1993) 406, 407. They refer to this conception of the origin theory as "concrete origin". For examples from American case law see the cases referred to in *Wedgwood Homes, Inc. v. Lund* 659 P.2d 377 at 379, 222 U.S.P.Q. 446 (Or. Sup. Ct. 1983).

<sup>17</sup> Webster & Page (1997) par 3.4.

<sup>18</sup> Shanahan (1982) 239. This will usually be the case where a small manufacturer is selling his goods under his own trade mark in a specific geographical area.

<sup>19</sup> McCarthy (1996) § 3:8; § 18:39.

<sup>20</sup> *MacMahan Pharmacal Co. v. Denver Chemical Mfg. Co.*, 113 F.468 (8th Cir. 1901).

<sup>21</sup> See also Isaacs (1930-1931) 1210, 1211; Denicola (1996) 77.



using the mark,<sup>22</sup> which was seen as fraud on the public. Licensors thus risked judicial forfeiture of their trade-mark rights.<sup>23</sup> Franchising, as we know it, was also impossible under the strict source theory.<sup>24</sup> Licensing and franchising were therefore seen as philosophically impossible.<sup>25</sup>

In 1916 the United States Supreme Court, in *Hanover Star Milling Co v Metcalf*,<sup>26</sup> described the function of a trade mark as identifying the origin or ownership of the goods to which it is affixed. This was still the leading case on the functions of trade marks during the 1920s. The phrase "origin or ownership" used here, referred to "personal" origin and ownership,<sup>27</sup> meaning the manufacturer of the goods.<sup>28</sup> According to Schechter,<sup>29</sup> writing in 1927, this was actually the position four hundred years earlier. Due to the ramifications of modern trade and the distribution system of goods, the consumer of the 1920s seldom knew the true origin of goods.<sup>30</sup> These changes in both wholesale and retail trade structures, as well as the shift in the character of the mark from the rational and physical to the emotional and psychological, also altered the whole economic character of trade marks.<sup>31</sup> This progressive widening process was also enshrined in the various statutes regulating the registration of trade marks.<sup>32</sup> The 1916 South African Act,<sup>33</sup> for example, stated the purpose of a trade mark as being to indicate that the goods upon or in connection with which it was used were the goods of the proprietor of the mark "by virtue of manufacture, selection, certification, dealing with or offering for sale". The provisions of this Act were altered by the 1947 Act<sup>34</sup> which made

<sup>22</sup> McCarthy (1996) § 18:39.

<sup>23</sup> Denicola (1996) 77.

<sup>24</sup> McCarthy (1996) § 3:8.

<sup>25</sup> McCarthy (1996) § 18:39. See also the cases listed there, some accepting the source theory as restricting the licensing of trade marks and others in favour of licensing in specific factual situations.

<sup>26</sup> *Hanover Star Milling Co v. Metcalf*, 240 U.S. 403, 412 (1916).

<sup>27</sup> Schechter FI "The Rational Basis of Trademark Protection" (1927) 40 *Harvard Law Review* 813 at 814.

<sup>28</sup> Webster & Page (1997) par 3.4

<sup>29</sup> Schechter (1927) 814.

<sup>30</sup> Some American courts also made this statement at the time. See Schechter (1927) 814, 815.

<sup>31</sup> Michaels (1980) 13; Gielen (1992) 264, Rutherford (1990) 151, but see the Mathys Committee Report on British Trade Mark Law and Practice, 1974, Cmnd 5601, par 22 which states that changes in trade patterns have not changed trade-mark functions.

<sup>32</sup> Webster and Page (1997) par 3.4.

<sup>33</sup> Patents, Designs, Trade Marks and Copyright Act 9 of 1916.

<sup>34</sup> Patents, Designs and Trade Marks Amendment Act 19 of 1947.



provision for registered users, thus broadening the functions of a trade mark to that of indicating a connection in one of the ways mentioned in the 1916 Act between the goods and the registered proprietor *or the registered user* of the mark.

Schechter comes to the conclusion in his writings that a trade mark merely indicates that all the goods with a specific trade mark on them, “emanate from the same – possibly anonymous – source...”.<sup>35</sup> This statement leads him to identify other functions of a trade mark; namely the identification function and the quality function.<sup>36</sup> Gradually the courts also softened their conception of the source function to come to the modern view as defined by Schechter.<sup>37</sup> This concept of the “anonymous origin” means that the consumer does not know or care who the manufacturer of a product is, but accepts that all products with the same trade mark on them are linked to or sponsored by the same source. The identity of the producer is thus less important for the consumer than the identity of the product itself.<sup>38</sup> This position is endorsed by the 1984 amendments to the Lanham Act, which in its amended form states that a mark will “indicate the source of the goods, even if that source is unknown”.<sup>39</sup> The source or origin function of trade marks is of benefit to consumers, because it reduces the search cost that they must incur in finding the desired goods. By remembering the name of the products they prefer, consumers can easily find them. The benefit to the trade-mark proprietor is that it provides him with a guarantee that consumers will recognise his products.<sup>40</sup> Trade marks further more ensure

<sup>35</sup> Schechter (1927) 816. Also refer to Beier (1970) 64; Rutherford (1990) 151 fn 3. Case law also refer to this definition, for example *Sally Gee, Inc. v. Myra Hogan, Inc.*, 699 F.2d 621 at 625, 1983 U.S. App. LEXIS 30710, 217 U.S.P.Q. (BNA) 658 (2<sup>nd</sup> Cir. 1983).

<sup>36</sup> Schechter (1927) 818. Kamperman Sanders & Maniatis (1993) 407 refer to this broader concept of the origin function as “abstract origin” and then also link it to the quality function, as does Shanahan (1982) 239. These other functions are discussed *infra*.

<sup>37</sup> McCarthy (1996) § 3:9 and cases listed there. See also Vuk (1998) 870; Webster & Page (1997) par 1, par 3.4.

<sup>38</sup> Webster & Page (1997) par 3.20; Klieger (1997) 800, 809.

<sup>39</sup> Lanham Act § 445, 15 U.S.C.S. 1127; McCarthy (1996) § 3:9.

<sup>40</sup> Vuk (1998) 875. Landes WM & Posner RA “Trademark Law: An Economic Perspective” (1987) 30 *Journal of Law and Economics* 265 at 269-270. To really reduce the search costs the brand must also exhibit consistent quality. See Chapter 2.3 “Quality Function” *infra*.



pride of workmanship, credit for good quality and responsibility for bad quality.<sup>41</sup>

This broader conception of the origin function also permits the joint use of trade marks by affiliated companies.<sup>42</sup> This can give satisfactory solutions for some trade-mark problems and will, for example, solve the problem of parallel imports.<sup>43</sup> Licensing is also explicitly authorised by section 5 of the Lanham Act, which stipulated that the use of a mark by “related companies” is for the benefit of the trade-mark proprietor.<sup>44</sup> However, there is the expectation that the kind and quality of the product are controlled by a particular entity.<sup>45</sup>

The use of so-called “dealers’ brands” are also made possible under this broader concept of the source function. Retail stores can order their goods made up with their own trade mark instead of that of the manufacturer. This was already established practice in 1930 and was brought about by a change in the business structure of society.<sup>46</sup> Under this custom it could no longer be said that a trade mark represents a particular origin of goods, thus the “manufacturing source” of the goods. The trade mark actually refers to “commercial source”.<sup>47</sup>

On the assumption that a trade mark only designates origin or ownership, the trade mark will only be protected against misuse where there is actual confusion of source, resulting

<sup>41</sup> In the absence of trade marks the producer with the cheapest, poorest and most dishonest product would arguably attract the most customers. Rogers ES “The Lanham Act & the Social Function of Trademarks” (1949) 14 *Law and Contemporary Problems* 173 at 175-176.

<sup>42</sup> In modern practice it happens that groups of associated corporate bodies, between whom the operation of the business is divided, conduct business together. A group of associated companies can, for example, adopt a trade mark as a “house mark”, which then indicates that the goods to which it is applied originate from the group. Each member authorises the others to use the mark on behalf of them all irrespective of in whose name it may have been registered. Furthermore, each member can authorise use of the mark on behalf of all the other members. See the discussion of this topic in Webster & Page (1997) par 12.15.

<sup>43</sup> Beier (1970) 64-65. The concept of “parallel importation” refers to the situation where “goods emanating from the registered proprietor are sold or otherwise disposed of by him under his mark and subsequently offered for resale under the mark without his express authorisation or approval”. See Webster & Page par 12.11, 12.15. Further discussion of this topic is beyond the scope of this dissertation.

<sup>44</sup> Denicola (1996) 78.

<sup>45</sup> Shanahan (1982) 239; Denicola (1996) 77-78.

<sup>46</sup> Isaacs (1930-1931) 1213, 1214.

<sup>47</sup> Isaacs (1930-1931) 1213.



in a diversion of trade or concrete financial loss or injury.<sup>48</sup> This is the classic type of infringement and was traditionally also the only kind of infringement against which trade-mark statutes<sup>49</sup> gave protection. Confusion as to origin was a prerequisite in these cases. Important case law during the late 1910s and early 1920s in the United States shows that the use of similar marks on non-competing goods quite often occurred.<sup>50</sup> In these cases there was no diversion of custom and bearing in mind the absence of statutory protection at that time, the courts went to great lengths to protect the trade-mark proprietors.

The adoption of the exhaustion theory by the European Court of Justice and in certain cases decided by national courts in member countries of the European Union seriously undermines the credibility of the traditional origin theory of trade-mark functions.<sup>51</sup> This exhaustion theory mainly entails that the trade-mark proprietor is allowed to first place goods upon the market under a specific trade mark. After the goods have been put into circulation the trade-mark proprietor's rights are exhausted. Also, where the trade-mark proprietor or an authorised person marketed the goods in one state of the European Union and the goods are then imported into another state, his rights are deemed to be exhausted in the latter. It is thus no longer possible to identify the origin of a product by reference to a specific trade mark, as there may be numerous sources of the marked product and also many people entitled to market the marked goods once they have been put on the market.<sup>52</sup>

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<sup>48</sup> Schechter (1927) 825.

<sup>49</sup> See for example the 1938 United Kingdom Trade Marks Act, as well as the South African Trade Marks Act 62 of 1963. Under the Lanham Act (before the amendment in 1984, referred to *supra*) a trade-mark proprietor also had to establish that an unauthorised user was using a similar trade mark on similar goods and that such use resulted in a likelihood of confusion as to the good's source of origin. See Vuk (1998) 861 and fn 3.

<sup>50</sup> References to these cases can be found in Schechter (1927) 825.

<sup>51</sup> Michaels (1980) 17.

<sup>52</sup> Michaels (1980) 13, 14, 17.



## 2.2 IDENTIFICATION AND DISTINGUISHING FUNCTION

According to McCarthy<sup>53</sup> the primary function of trade marks today is to identify and distinguish goods. Already in 1927 Schechter pronounced that the true functions of a trade mark are to “identify a product as satisfactory and thereby to stimulate further purchases by the consuming public”.<sup>54</sup> The identification function does not mean that the consumer must know the precise identity of the manufacturer or distributor of the goods. As already explained in the discussion of the origin function, the trade mark merely indicates that all products sold under the specific mark came from the same, possibly anonymous, source.<sup>55</sup> This is in line with a relaxation of the ties of a trade mark to a specific business, by rather placing the emphasis on the product in connection with which the mark is used.<sup>56</sup> The mark thus indicates the nature of the product itself and therefore licensing, franchising and the transfer of rights are possible.<sup>57</sup>

This function of trade marks is essential in a competitive economy. Trade marks are used to identify and distinguish one product from another similar product from a different manufacturer.<sup>58</sup> In this way the consumer public can identify perceived differences in product quality. The manufacturer is thus also forced to take responsibility for bad quality. This serves as an incentive to producers to deliver products of a better quality or rather of the best quality that they can.<sup>59</sup> It is important to note that even in the case of a sole manufacturer of a product, the trade mark can still potentially carry out a distinguishing function. The trade mark indicates that the goods are connected in the

<sup>53</sup> McCarthy (1996) § 3:6. This is also the conclusion of Michaels (1980) 16. See also Lunsford JR “Consumers and Trademarks: The Function of Trademarks in the Marketplace” (1974) 64 *The Trademark Reporter* 75 at 95 and Gielen (1992) 264. Compare however Shanahan (1982) 240 who sees the descriptive or indicating function as a secondary or derivative function.

<sup>54</sup> Schechter (1927) 818. Schechter referred here to the identification function, as well as the quality function, which will be discussed separately in Chapter 2.3 “Quality Function” *infra*.

<sup>55</sup> McCarthy (1996) § 3:7; Lunsford (1974) 78, 88.

<sup>56</sup> Webster & Page (1997) par 3.20.

<sup>57</sup> See Michaels (1980) 14. See also Webster and Page (1997) par 3.18 & 3.20.

<sup>58</sup> Diamond (1975) 289. See also Rogers (1949) 182.

<sup>59</sup> McCarthy (1996) § 3:5; Diamond (1975) 289.



course of trade with the proprietor of the goods and once other goods come into existence the mark can truly perform its distinguishing function.<sup>60</sup>

Apart from identifying the goods of one manufacturer and distinguishing them from the goods of another manufacturer, trade marks can also serve to identify and distinguish a secondary source. This means that a trade mark can indicate sponsorship or authorisation, for example where the logo of a university is imprinted on wearing apparel.<sup>61</sup>

Furthermore a trade mark can identify and distinguish the non-producing seller or merchant of certain goods. As illustration McCarthy uses the example of a picture used in connection with goods. This picture serves to identify the source of the goods and not the artist that created it, unless that person is the source of the specific goods.<sup>62</sup>

According to Beier, writing in 1970, the only function protected by trade-mark law was still this function of identifying the goods as to their origin from a particular manufacturer.<sup>63</sup> The central aim of trade-mark law at this stage was protection against the danger of confusion or deception.<sup>64</sup>

Here again there was a progressive widening process in statutory law. The definition of a "trade mark" in the 1938 (United Kingdom) Trade Marks Act<sup>65</sup> discarded the recital of ways in which goods had to be connected with the proprietor and merely stated that the mark indicated that there was a connection in the course of trade between the goods and the proprietor or registered user of the mark. This was also the objective of the 1963

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<sup>60</sup> See Webster & Page (1997) par 3.4.

<sup>61</sup> McCarthy (1996) § 3:4.

<sup>62</sup> McCarthy (1996) § 3:4.

<sup>63</sup> Beier (1970) 63. As shown above this can also be seen as two functions, namely the modern source function and the identification function, but Beier sees them as one.

<sup>64</sup> Thus both the origin and distinguishing functions serve the same purpose, namely protection against confusion or deception.

<sup>65</sup> 1 and 2 Geo 6 c 22 s 68(1).



South African Trade Marks Act, but the legislator did not achieve this result.<sup>66</sup> This objective was only accomplished by the Trade Marks Amendment Act 46 of 1971.<sup>67</sup>

In the United States of America both the common law and federal law follow the definition of a “trademark” under the Federal Lanham Act.<sup>68</sup> According to this Act a trade mark is “any word, name, symbol, or device, or any combination thereof” that is used by a manufacturer or merchant “to identify and distinguish his or her goods, ..., from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown”.<sup>69</sup> This function is one of three elements for a designation to become a trade mark.<sup>70</sup>

The same kind of description is to be found in statutes in the European Union. The Trademark Directive<sup>71</sup> states that trade marks “may consist of any sign capable of being represented graphically .... provided that such signs are capable of distinguishing the goods or services of one undertaking from those of another undertaking”.<sup>72</sup> The 1994 United Kingdom Trade Marks Act in following the Directive also refers to a sign “which is capable of distinguishing goods or services of one undertaking from those of other undertakings”.<sup>73</sup> The Uniform Benelux Trademark Law in article 1 similarly describes

<sup>66</sup> See Webster & Page (1997) par 3.4.

<sup>67</sup> The amended definition read as follows: “‘Trade mark’, other than a certification mark, means a mark used or proposed to be used in relation to goods or services for the purpose of – (a) indicating a connection in the course of trade between goods or services and some person having the right, either as proprietor or as registered user, to use the mark, whether with or without any indication of the identity of the person and (b) distinguishing the goods or services in relation to which the mark is used or proposed to be used, from the same kind of goods or services connected in the course of trade with any other person.”.

<sup>68</sup> McCarthy (1996) § 3:1, § 3:4.

<sup>69</sup> Lanham Act § 45, 15 U.S.C.A. § 1127 (“Trademark”). The same definition is used to define a “Service Mark” in this Act.

<sup>70</sup> The other two being “the tangible symbol” and “the type of use”. The requirement of a “tangible symbol” means that a mark must consist of a word, name, symbol or device or any combination of these. The “type of use” designates that there must be actual adoption of the symbol and that it must be used as a trade mark by the manufacturer or seller of goods or provider of services. See McCarthy (1996) § 3:1.

<sup>71</sup> First Council Directive to Approximate the Laws of the Member States Relating to Trade Marks, article 2, O.J. L40/1, at 2 (1989).

<sup>72</sup> This definition is identical to that contained in Council Regulation (EC) no 40/94 which provides for a Community Trade Mark.

<sup>73</sup> Trade Marks Act 1994 c 26 s 1(1).



the function of a mark as being “to distinguish the goods of an enterprise”. The capacity to distinguish relates to the nature of the mark and its ability to be linked in the minds of consumers to the goods of a certain manufacturer or seller.<sup>74</sup> The identification or distinguishing function of a trade mark is also emphasised in cases decided by the European Court of Justice. In the *Canon* case,<sup>75</sup> the court summarised the previous case law to which the court had been referred as follows:

“the essential function of the trade mark is to guarantee the identity of the origin of the marked product to the consumer or end user by enabling him, without any possibility of confusion, to distinguish the product or services from others which have another origin ..... it must offer a guarantee that all the goods or services bearing it have originated under the control of a single undertaking which is responsible for their quality....”

The 1993 South African Trade Marks Act also defines a trade mark mainly in terms of its distinguishing function. The definition is similar to that contained in the 1994 United Kingdom Act. A “trade mark” is defined as

“a mark used or proposed to be used by a person in relation to goods or services for the *purpose of distinguishing* the goods or services in relation to which the mark is used or proposed to be used from the same kind of goods or services connected in the course of trade with any other person”.<sup>76</sup>

Webster and Page<sup>77</sup> remark that this definition reflects a change in emphasis in the function of a trade mark from the origin function to the distinguishing function, although these two functions are closely linked.

A few recent court cases also commented on the function of a trade mark. The *Valentino* judgment, although delivered in 1998, was decided under the 1963 Act. Justice Harms commented that the function of a trade mark as a badge of origin has changed and that

<sup>74</sup> Webster and Page (1997) par 3.18.

<sup>75</sup> Case C-39/97, *Canon Kabushiki Kaisha v Metro-Goldwyn-Mayer Inc* [1999] R.P.C. 117 (ECJ) 133, discussed in Chapter 5.8 “Judgments of the Court of Justice of the European Communities (CJEC)” *infra*. The CJEC reiterated this definition in the case of *Koninklijke Philips Electronics NV v Remington Consumer Products Ltd* [2003] R.P.C. 2 14 (ECJ) par 22.

<sup>76</sup> S 2(1) sv “trade mark”. Emphasis added.

<sup>77</sup> Webster and Page (1997) par 3.16.



this change is reflected in the 1993 Act.<sup>78</sup> In the *Abbott* case<sup>79</sup> this change was also recognised. The judge remarked that the “badge of origin approach” to a trade mark is no longer at the forefront and has been replaced by the distinguishing capability of the mark. In *Cadbury v Beacon*<sup>80</sup> the court considered that the basic trade mark function was that of “distinguishing as set out in section 9(1)”. Both the *Triomed*<sup>81</sup> and *Cowbell*<sup>82</sup> cases referred to the description of the essential function of a trade mark in the *Canon* case.<sup>83</sup> Judge Smit in the court of first instance in the *Triomed* case added that the current South African Act places greater emphasis on the capacity of a mark to distinguish. The Supreme Court of Appeal, however, even after referring to recent decisions of the Court of Justice of the European Communities, unfortunately turned back to the old view of a trade mark as a “badge of origin”. In the *Cowbell* case the court stated that the essential function of a trade mark is “to indicate the origin of the goods in connection with which it is used”.<sup>84</sup> This notion was perpetuated by the Supreme Court of Appeal in the *Triomed* appeal case,<sup>85</sup> where the court reiterated that by definition the function of a trade mark was to indicate the origin of goods or services and that the enquiry was a “badge of origin” inquiry.<sup>86</sup> This also happened in the case of *SAFA v Stanton Woodrush*,<sup>87</sup> where

<sup>78</sup> *Valentino Globe BV v Phillips* 1998 3 SA 775 (SCA) 782i; [1998] 4 All SA 1 (A) 6i-j.

<sup>79</sup> *Abbott Laboratories v UAP Crop Care (Pty) Ltd* [1999] 1 All SA 502 (C) 509b-c, 511i, 512g; 1999 3 SA 624 (C) 631F-G, 634E, 635C.

<sup>80</sup> *Cadbury (Pty) Ltd v Beacon Sweets & Chocolates (Pty) Ltd* 2000 2 SA 771 (SCA) 777H-778A; [2000] 2 All SA 1 (A) 4f-g. See discussion in Chapter 6.2.3 “Registrability under the 1993 Act” *infra*.

<sup>81</sup> *Triomed (Pty) Ltd v Beecham Group plc* 2001 2 SA 522 (T) 537H-538B; [2001] 2 All SA 126 (T). See Chapter 6.4.2 “The Dilution Provisions” and Chapter 6.4.4 “Cases” *infra*.

<sup>82</sup> *AG Cowbell v ICS Holdings Ltd* 2001 3 SA 941 (SCA) 948A-C. This case concerned the respondent’s registered marks, DAIRY BELLE with cow device and JERSEYBEL with cow device and the applicant’s COWBELL with cow device. The case was decided under s 17(1) of the Trade Marks Act 62 of 1963. Judgment of the court *a quo* was reversed, with the result that the respondent cannot prevent appellant’s registration of the COWBELL mark.

<sup>83</sup> Case C-39/97, *Canon Kabushiki Kaisha v Metro-Goldwyn-Mayer Inc* [1999] R.P.C. 117 (ECJ) 133, discussed in Chapter 5.8 “Judgments of the Court of Justice of the European Communities (CJEC)” *infra* and quotation from the *Canon* case in the text *supra*.

<sup>84</sup> *AG Cowbell v ICS Holdings Ltd* 2001 3 SA 941 (SCA) 948A.

<sup>85</sup> *Beecham Group plc v Triomed (Pty) Ltd* [2002] 4 All SA 193 (SCA); 2003 3 SA 639 (SCA).

<sup>86</sup> *Beecham Group plc v Triomed (Pty) Ltd* [2002] 4 All SA 193 (SCA); 2003 3 SA 639 (SCA) 646A-B.

<sup>87</sup> *South African Football Association (SAFA) v Stanton Woodrush (Pty) Ltd t/a Stan Smidt & Sons and another* 2003 3 SA 313 (SCA) 322C; [2003] 1 All SA 274 (SCA) 280b-c. But see *Laugh It Off Promotions CC v SA Breweries International (Finance) BV t/a Sabmark International* [2004] 4 All SA 151 (SCA) 157a, where the Supreme Court of Appeal stated that section 34(1)(c) “is not concerned with either origin or confusion.” The Court then said that this section “protects the economic value of a trade mark, more particularly its reputation and its advertising value or selling power.” See also Chapter 2.4 “Advertising Function” *infra*.



the Supreme Court of Appeal again stressed that a trade mark is a badge of origin and that the function of a trade mark is to indicate origin.

### 2.3 QUALITY FUNCTION

Schechter was probably the first writer to identify the quality function as one of the true functions of a trade mark.<sup>88</sup> This function is variously described as the “quality”<sup>89</sup> or “guarantee”<sup>90</sup> function. Although it was based on the source function, it expanded thereon. Some writers, such as Hanak<sup>91</sup> are of opinion that this function is the primary function of trade marks and that the origin of the product is only important to consumers because the manufacturer’s product has become associated with a certain level of quality. Beier,<sup>92</sup> however, holds the opinion that the quality function has no independent legal significance and just means that consumers believe that goods with the same trade mark on them have the same quality, because they have the same origin. Shanahan goes even further by contending that a trade mark does not symbolise the actual origin of the product or its quality, but the origin of that quality.<sup>93</sup>

Most writers say that this function serves to indicate a consistent level of quality.<sup>94</sup> In other words, this function indicates a single quality control source. The quality function

<sup>88</sup> Schechter (1927) 818 pronounced that the true functions of a trade mark are to “identify a product as satisfactory and thereby to stimulate further purchases by the consuming public”. See also McCarthy (1996) § 18:40, Klieger (1997) 802.

<sup>89</sup> McCarthy (1996) § 3:10; Vuk (1998) 875. Hanak (1974) 363-378 uses the term “quality assurance function” for this function, which he defines as “that of assuring the purchaser a certain degree of uniformity or quality in the products to which they are attached”.

<sup>90</sup> This word can be misleading, because a trade mark is not necessarily a guarantee in the legal sense. McCarthy (1996) § 3:10. This term is, however, used by some writers, such as Lunsford (1974) 78; Diamond (1975) 289; Stuart M “The Function of Trade Marks and the Free Movement of Goods in the European Economic Community” (1976) *International Review of Industrial Property and Copyright Law* 27 at 31.

<sup>91</sup> Hanak (1974) 364. He holds the opinion that a trade mark fulfills only two functions: the primary function of indicating degree of quality and secondarily to identify the origin or source of goods.

<sup>92</sup> Beier (1970) 63, 64.

<sup>93</sup> Shanahan (1982) 240.

<sup>94</sup> McCarthy (1996) § 3:10; Lunsford (1974) 78; Diamond (1975) 289; Hanak (1974) 363; Kamperman Sanders & Maniatis (1993) 407; Vuk (1998) 875; Rogers (1949) 182; Stuart (1976) 31; Swann JB & Davis TH “Dilution, an Idea Whose Time has Gone; Brand Equity as Protectable Property, the New/Old Paradigm” (1994) 84 *The Trademark Reporter* 267 at 270. But according to Isaacs (1930-1931) 1215-1216 it is quite possible that a manufacturer can change the formula or produce a cheaper



does not mean that all goods are of a high standard of quality, but merely that the quality level of all the goods under a specific mark are consistent and predictable, whether that quality is high, low or mediocre.<sup>95</sup> Each trade mark therefore carries its own unique message concerning quality.<sup>96</sup> Schechter identified two cases that, although not expressly recognising the quality function of trade marks, evidenced the same reasoning.<sup>97</sup> In the *Aunt Jemima* case<sup>98</sup> the court held that the applicant's registered trade mark AUNT JEMIMA'S for self-rising flour was infringed by the defendant's use of the same trade mark for pancake syrup. The court reasoned that "syrup and flour are both food products, and food products commonly used together. Obviously the public, or a large part of it, seeing this trade-mark on syrup, would conclude that it was made by the complainant ... In this way the complainant's reputation is put in the hands of the defendants".<sup>99</sup> The *Aunt Jemima* Doctrine or related goods doctrine, which recognises the importance of trade marks outside directly competitive relationships, developed out of this case.<sup>100</sup> The other case was the *Eastman Photographic* case<sup>101</sup> where the use of KODAK on bicycles was held to infringe the registered mark KODAK for cameras. Many shops sold bicycles and cameras and the court held that except for confusion and deception, use of the word by the defendant would be injurious to the applicant.

The quality function of a trade mark does not, however, according to Kamperman Sanders and Maniatis,<sup>102</sup> constitute a legally enforceable warranty. If it did, the

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product. Although the manufacturer stays the same, there can be a misrepresentation, as the quality of the product is no longer the same.

<sup>95</sup> McCarthy (1996) § 3:10, § 18:40; Kamperman Sanders & Maniatis (1993) 407; Klieger (1997) 803.

<sup>96</sup> This also implies that the trade-mark proprietor gets the credit for good products and the discredit if they are bad. Rogers (1949) 177, in this context, spoke of trade marks as "symbols of responsibility".

<sup>97</sup> Klieger (1997) 803-804. At this stage, namely 1925, Schechter seemed to work within the consumer protection model, but this would radically change in 1927, when he wrote his now well-known article "The Rational Basis of Trademark Protection" (see fn 27 *supra*). See also Klieger (1997) 805-806.

<sup>98</sup> *Aunt Jemima Mills Co. v. Rigney & Co.* 247 F.407 (2<sup>nd</sup> Cir. 1917).

<sup>99</sup> *Aunt Jemima Mills Co. v. Rigney & Co.* 247 F.407 (2<sup>nd</sup> Cir. 1917), 410.

<sup>100</sup> Port KL "Learned Hand's Trademark Jurisprudence: Legal Positivism and the Myth of the Prophet" 27 (1996) *Pacific Law Journal* 221 at 244 describes this case as the "most important and most expansive new grant of trademark rights known at the time". This was the first case in which it was acknowledged that use of the same mark on products that might be expected to come from the plaintiff even if the plaintiff never produced them, could be enjoined (that is prevented by obtaining an injunction) by the plaintiff. See also Martino T *Trademark Dilution* (1996) Clarendon Press Oxford 12.

<sup>101</sup> *The Eastman Photographic Materials Company Limited and Another v. The John Griffiths Cycle Corporation Limited and the Kodak Cycle Company Ltd.* 15 R.P.C. (1898) 105.

<sup>102</sup> Kamperman Sanders & Maniatis (1993) 407.



“floodgates of litigation” would be opened by consumers. The mark would furthermore lose its individuality and be a common indicator of quality that anybody could use for the same goods.

This consistency in quality is expected by consumers regardless of the producing source. A person buying a McDONALD’S burger at an outlet in South Africa assumes that the quality of menu, décor and service will be similar to outlets in the United States and the rest of the world.<sup>103</sup> Beier, as said above, is, however, of the opinion that a trade mark fulfils a quality function only to the extent that it guarantees to the consumer a constant source of origin, as he sees the latter as the only protected function of trade marks.<sup>104</sup> He thus argues that it is unimportant whether goods offered for sale in different countries under the same trade mark are of similar or of different quality. NESCAFÉ coffee provides a good example. This product is distributed in different countries under the same trade mark and get-up, but it varies considerably in its composition and taste to suit the demands of different people. It cannot be expected from the manufacturer to renounce the use of this well-known trade mark in certain countries. He might well use a different get-up to identify the different qualities. This phenomenon is especially controversial within the European Union, where there are still products with differing tastes and possibly differences in quality marketed under the same trade mark, despite the creation of an internal market and the advanced state of harmonisation procedures.<sup>105</sup>

The most important feature of this function is therefore that the trade-mark proprietor is entitled to maintain control over the quality of the goods sold under his trade mark. If it happens that a certain product deteriorates because of staleness, for example, after it was made by another manufacturer with permission from the trade-mark proprietor, that product is no longer the genuine product and the trade-mark proprietor can sue for infringement or dilution.<sup>106</sup> This is because the trade-mark proprietor’s quality control

<sup>103</sup> See McCarthy (1996) § 3:10, § 18:40; Lunsford (1974) 78.

<sup>104</sup> Beier (1970) 66, 67.

<sup>105</sup> Kamperman Sanders & Maniatis (1993) 408.

<sup>106</sup> McCarthy (1996) § 3:10. See *Warner-Lambert Co. v. Northside Dev. Corp.*, 86 F.3d 3, 39 U.S.P.Q.2d 1136 (2<sup>nd</sup> Cir. 1996) where a preliminary injunction was ordered against the sale of HALL’S cough drops that are older than the use-by date indicated on the package.



standards are no longer met and this could lead to the situation where quality deficiencies are attributed to this proprietor. This feature of the quality function is especially strong in the case of house marks, for example the “no name” brands of the Pick ‘n Pay supermarket chain, where the control of quality by the proprietor is expected by the consumer.<sup>107</sup>

If the producer of a certain trade-marked product maintains a consistent quality for the product, consumer costs are reduced. This is one of the benefits of trade marks.<sup>108</sup> The consumer saves search costs by identifying the product he wishes to buy by its trade mark, rather than investigating the attributes of all similar goods. Therefore it is important that the quality remains consistent at all times. This benefit of trade marks in lowering consumer search costs presupposes legal protection for trade marks.<sup>109</sup>

The development of the quality function of trade marks paved the way for the modern view regarding the licensing and franchising of trade marks.<sup>110</sup> The underlying assumption is that the licensor or franchisor will exercise control over the quality of the products and services now provided by licensees and franchisees. The consumer expects an equal level of quality for all products sold under a single franchised mark.<sup>111</sup> He basically views the franchised mark as a symbol of equal quality, regardless of the physical source of the goods and the relationship between the trade-mark proprietor and the personnel running the franchised outlets.<sup>112</sup> This quality control function is so important that the Lanham Act of 1946 affords the trade-mark proprietor the right to inspect and certify the quality of the goods manufactured and sold under the proprietor’s trade mark.<sup>113</sup> The trade-mark proprietor not only has a right to control quality, but has a

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<sup>107</sup> Michaels (1980) 16.

<sup>108</sup> Landes & Posner (1987) 269.

<sup>109</sup> See further Landes & Posner (1987) 270 and 275–280 for a more detailed discussion.

<sup>110</sup> See the discussion in McCarthy (1996) § 3:11 and § 18:40.

<sup>111</sup> McCarthy (1996) § 3:11.

<sup>112</sup> McCarthy (1996) § 18:40.

<sup>113</sup> See McCarthy (1996) § 3:11; Lanham Act § 45, 15 U.S.C.S. § 1127 (“Related Company”); Lanham Act § 5, 15 U.S.C.S. § 1055 (“Use by Related Companies”). The Act does not specifically allow trade-mark licensing, but these provisions clearly contemplate licensing.



duty to do so.<sup>114</sup> The Lanham Act has thus indirectly established the quality theory in United States' law.

If the quality function of trade marks is so important, a question which is clearly relevant is how this function can be preserved. Thus, how can trade-mark proprietors be discouraged from secretly and substantially altering the nature of their products?<sup>115</sup> The means most frequently employed by the courts in the United States is to deny the trade-mark proprietor relief for trade-mark infringement or unfair competition on the basis of unclean hands.<sup>116</sup> One of the first cases where this approach was used, was that of *Independent Baking Powder Co. v. Boorman*.<sup>117</sup> Here a manufacturer of baking powder used alum as the acid constituent. The product was sold under the trade mark SOLAR. After many years the manufacturer substituted phosphate for alum, but did not inform the public. Another manufacturer then started to use the trade mark SOLAR on baking powder. An infringement suit was brought against the latter. The court denied the plaintiff relief in equity, by holding that the conduct of secretly and substantially changing the nature of the product was deceptive.<sup>118</sup> The doctrine of unclean hands has one serious limitation when used in this way to maintain the quality of trade-marked products. The effect is that both the trade-mark proprietor and infringer are now allowed to use the mark and this is even more deceptive to the public. Some judges and academics suggest that both parties should be enjoined to use the mark.<sup>119</sup>

<sup>114</sup> *Gorenstein Enterprises, Inc. v. Quality Care-USA, Inc.*, 874 F.2d 431, 10 U.S.P.Q.2d 1762, 1764 (7<sup>th</sup> Cir. 1989). Also see McCarthy (1996) § 18:42; Michaels (1980) 16.

<sup>115</sup> Hanak (1974) 374-377 also discusses a number of permissible changes in trade-marked products, which would not be regarded as deceptive. This includes slight variations necessitated by trade discoveries, newer and more economical methods of making the same product or changed manufacturing conditions. For example, slight mechanical changes in a new model of a known car would be acceptable.

<sup>116</sup> Hanak (1974) 365.

<sup>117</sup> *Independent Baking Powder Co. v. Boorman*, 175 F. 448 (C.C.N.J. 1910).

<sup>118</sup> Hanak (1974) 366 also mentions the following cases in this regard: *Mulhens & Kropff, Inc. v. Ferd Muelhens, Inc.* 38 F.2d 287 (S.D.N.Y. 1929), rev'd on other grounds, 43 F.2d 937 (2<sup>nd</sup> Cir.), cert. denied, 282 U.S. 881 (1930) (the 4711 case); *Menendez v. Faber, Coe & Gregg, Inc.* 345 F. Supp. 527 (S.D.N.Y. 1972), modified on other grounds *sub nom. Menendez v. Saks & Co.*, 485 F.2d 1355 (2<sup>nd</sup> Cir. 1973), petition for cert. filed *sub nom. Republic of Cuba v. Saks & Co.*, 42 U.S.L.W. 3501 (U.S. 21 February 1973) (No. 73-1287).

<sup>119</sup> Hanak (1974) 367, 368.



According to Hanak<sup>120</sup> there are also other means to preserve the quality function of trade marks. He sees § 43(a) of the Lanham Act,<sup>121</sup> which makes any person who applies a false designation of origin or any false description or representation to goods and services and causes them to enter into commerce, liable in a civil action, as potentially the most effective way. The scope of this section is quite broad and if a trade mark that became associated with goods of a high quality is now attached to goods of a lesser quality, it might be regarded as a false representation.<sup>122</sup> He also sees denial of registration on the federal principal register of the United States as a tool for promoting the quality function.<sup>123</sup> Registration normally provides a number of procedural and substantive advantages not found in the common law. A mark can also be cancelled if the proprietor subsequently alters the nature of the product in a deceptive and material way.<sup>124</sup> In United States Law the Federal Trade Commission also has the authority to petition for the cancellation of registered trade marks on various grounds.<sup>125</sup>

## 2.4 ADVERTISING FUNCTION

In performing a distinguishing function, a trade mark also performs an advertising function.<sup>126</sup> The advertising function is regarded by modern commerce as the most important economic function of a trade mark.<sup>127</sup> In the 1942 *Mishawaka Rubber* case<sup>128</sup> the marketing function<sup>129</sup> of modern trade marks was described as follows:

<sup>120</sup> Hanak (1974) 368.

<sup>121</sup> 15 U.S.C. § 1125(a) 1970.

<sup>122</sup> Hanak (1974) 368-370.

<sup>123</sup> Hanak (1974) 370-372. This might be a possibility under South African law, as s 10 and specifically s 10(13) of the 1993 Trade Marks Act specify that "a mark which, as a result of the manner in which it has been used, would be likely to cause deception or confusion" ... "shall not be registered as a trade mark or, if registered, shall ... be liable to be removed from the register". If a trade mark is used on a product, the nature of which is subsequently changed to a substantial extent and the same trade mark is still used, the mark would cause deception "as a result of the manner in which it has been used". See also s 21 regarding the procedure to oppose a registration.

<sup>124</sup> See s 10 and s 10(13) of the South African Trade Marks Act 194 of 1993 quoted in fn 123 *supra*.

<sup>125</sup> See Hanak (1974) 373 for a discussion of these grounds.

<sup>126</sup> Michaels (1980) 13.

<sup>127</sup> Rutherford (1990) 151.

<sup>128</sup> *Mishawaka Rubber & Woolen Manufacturing Co. v. S.S. Kresge Co.*, 316 U.S. 203 at 205, 62 S. Ct. 1022, 86 L. Ed. 1381, 53 U.S.P.Q. 323 (1942).

<sup>129</sup> The term "marketing function" is sometimes used as an alternative for the term "advertising function". Stuart (1976) 32 also uses the term "suggestive function" as a further alternative to "advertising function".



"The protection of trade-marks is the law's recognition of the psychological function of symbols. If it is true that we live by symbols, it is no less true that we purchase goods by them. A trade-mark is a merchandising short-cut which induces a purchaser to select what he wants, or what he has been led to believe he wants. The owner of a mark exploits this human propensity by making every effort to impregnate the atmosphere of the market with the drawing power of a congenial symbol. Whatever the means employed, the aim is the same – to convey through the mark, in the minds of potential customers, the desirability of the commodity upon which it appears. Once this is attained, the trade-mark owner has something of value. If another poaches upon the commercial magnetism of the symbol he has created, the owner can obtain legal redress".

It is generally accepted that trade marks also serve as a prime element in the advertising of goods, besides the other functions they fulfil.<sup>130</sup> Similar to advertisements, trade marks convey information and persuade consumers to purchase certain goods.<sup>131</sup> Thus, if a trade mark calls to mind a specific product and evokes an association of satisfaction and desirability with that product, it possesses advertising value.<sup>132</sup> This advertising function of trademarks became important during the time when the geographical scope of markets expanded and the distribution system of goods became more and more complex.<sup>133</sup> Some see this function as a cumulative result of the origin and quality functions.<sup>134</sup> By employing the advertising function of trade marks a seller can create a positive image of his goods among consumers in the market place. He can establish product acceptance and encourage consumer loyalty. In this way sales are stimulated. Consequently goodwill is generated and the proprietor of the mark has something of value. Goodwill is an intangible quality and can be defined in many different ways. It can be described as the value attributable to a going concern apart from its physical assets, capital, stock or funds. It emanates mostly from the reputation and integrity earned by an established

<sup>130</sup> Rutherford (1990) 151 indicates that in performing a distinguishing function, a trade mark also performs an advertising function. See also Lunsford (1974) 78-79; Beier (1970) 63; Diamond (1975) 290; Gielen (1992) 264.

<sup>131</sup> Vuk (1998) 877.

<sup>132</sup> Mostert FW "Trade Mark Dilution and Confusion of Sponsorship in United States, German and English Law" (1986) 17 *International Review of Industrial Property and Copyright Law* 80 at 86-87; Mostert FW "Well-known and Famous Marks: is Harmony Possible in the Global Village?" (1996) 86 *The Trademark Reporter* 103 at 134.

<sup>133</sup> See McCarthy (1996) § 3:12, quoting from the Restatement (Third) of Unfair Competition, § 9, comment c (Tentative Draft No. 2 1990).

<sup>134</sup> Kamperman Sanders & Maniatis (1993) 408; Webster & Page (1997) par 3.20.



well-known and well-conducted business, but sometimes from other, even accidental circumstances.<sup>135</sup> Some scholars thus describe a trade mark as the “objective symbol of the goodwill” of a particular business.<sup>136</sup> A trade mark is, however, not merely a symbol of goodwill, but can serve as an effective agent in the creation and perpetuation of goodwill.<sup>137</sup> The mark has a selling power<sup>138</sup> independent of the goodwill of the goods to which it is attached and thus the mark actually sells the goods. This is acknowledged by the recognition of advertising as a separate function of a trade mark.<sup>139</sup> The more distinctive the mark, the more effective is its selling power. This selling power will encourage consumers to return to and purchase again the goods with which they have become familiar. Therefore the protection of the reputation, uniqueness and individuality of the trade mark is very important to the proprietor of the mark.<sup>140</sup> It is also important to note that it is the selling power of the trade mark which is protected and not the mark per se.<sup>141</sup>

This selling power is also referred to as the commercial magnetism of the mark.<sup>142</sup> The existence and economic importance of this commercial magnetism cannot be denied. It is also certain that these values are often subjected to damage. Furthermore, the greater the

<sup>135</sup> Vuk (1998) 869 and fn 34; Rogers (1949) 176. These other accidental circumstances can, for example, be the location of the business. Vuk actually sees the “embodiment of goodwill” and the “advertising function” as two different functions of a trade mark. See Vuk (1998) 876-877.

<sup>136</sup> McCarthy (1996) § 3:2; Vuk (1998) 862, 876. See Rogers ES “Some Historical Matter Concerning Trade-Marks” (1910) 9 *Michigan Law Review* 29 at 43 who already in 1910 said that “a trade mark is nothing but good will symbolized”.

<sup>137</sup> Schechter (1927) 818-819; McCarthy (1996) § 3:12; Rutherford (1990) 152; Shanahan (1982) 241; Gielen (1992) 266, 268. This was also stressed by Callmann (1947) 190. He refers to the use of the famous TIFFANY trade mark by a motion-picture company. Although this use did not affect the goodwill of the jewellery firm, it definitely endangered the mark’s advertising value “by possible dilution of its catch-word potential”. See further *Tiffany & Co. v. Tiffany Productions, Inc.* 237 A.D. 801, 260 N.Y.S. 821 (1932); Martino (1996) 14-15.

<sup>138</sup> This selling power is defined as the strength of the mark *vis-à-vis* consumers. See Garcia JA “Trademark Dilution: Eliminating Confusion” (1995) 85 *The Trademark Reporter* 489 at 504-505.

<sup>139</sup> Kamperman Sanders & Maniatis (1993) 408. They use the example of Coca Cola and the value of the brand independently of the soda drink itself to demonstrate this.

<sup>140</sup> Rutherford (1990) 152. In this regard see also the statement of Mr Justice Frankfurter from the *Mishawaka Rubber* case, quoted by Diamond (1975) 288.

<sup>141</sup> Webster & Page (1997) par 12.24.

<sup>142</sup> See quote from the *Mishawaka Rubber* case *supra* and Pattishall BW “The Dilution Rationale for Trade Mark – Trade Identity Protection, its Progress and Prospects” (1977) 67 *The Trademark Reporter* 607 at 620, 624.



advertising value of a trade mark, the greater the risk of misappropriation.<sup>143</sup> Rutherford<sup>144</sup> summarises the position as follows:

“Any unauthorised use of the trade mark by other traders will lead to the gradual consumer disassociation of the trade mark from the proprietor’s product. The reputation and unique identity of the trade mark will become blurred. The selling power becomes eroded and the trade mark becomes diluted.”

Vast sums of money are also invested in building up the advertising value of a trade mark. The commercial magnetism, selling power and advertising value of a trade mark are often exploited by unauthorised users.<sup>145</sup> It is therefore highly important that there must be some kind of protection for these values.

This advertising function has also been recognised by the courts. In the *Stork* case,<sup>146</sup> for example, the judge remarked that in modern business the trade mark performs “the added function of an advertising device”. The selling power, advertising function and commercial magnetism of a trade mark which has become well-known, is also statutorily recognised in different Acts and this precludes trade-mark dilution.<sup>147</sup> In South Africa the Supreme Court of Appeal recognised the advertising function in the case of *Laugh It Off Promotions v SAB*. The court said that section 34 (1)(c) of the Trade Marks Act “protects the economic value of a trade mark, more particularly its reputation and its advertising value or selling power”.<sup>148</sup>

<sup>143</sup> Rutherford (1990) 152.

<sup>144</sup> Rutherford (1990) 152.

<sup>145</sup> Mostert FW “The Parasitic Use of Commercial Magnetism of a Trade Mark on Non-competing Goods” (1986) 11 *European Intellectual Property Review* 342.

<sup>146</sup> *Stork Restaurant, Inc. v Sahati*, 166 F.2d 348, 1948 U.S. App. LEXIS 3355, 76 U.S.P.Q. (BNA) 374 (9<sup>th</sup> Cir. 1948), quoting from *Arrow Distilleries v. Globe Brewing Co.*, 117 F.2d 347 at 351, 1941 U.S. App. LEXIS 4233, 48 U.S.P.Q. (BNA) 157 (4<sup>th</sup> Cir. 1941).

<sup>147</sup> See Webster & Page (1997) par 3.20; 12.24; Mostert (1986 IIC) 87, 91; Mostert (1996) 133. Lanham Act § 43(c), 15 U.S.C. § 1125(c); Trademark Directive art. 5(1) & (2); United Kingdom Trade Marks Act s 5(3) and 10(3); South African Trade Marks Act 194 of 1993 s 10(17) and 34(1)(c).

<sup>148</sup> *Laugh It Off Promotions CC v SA Breweries International (Finance) BV t/a Sabmark International* [2004] 4 All SA 151 (SCA) 157a.



Besides enabling consumers to identify a product, trade marks provide the automatic commencement of the advertising process. A trade mark can only be used outside its original connotation and connection with a specific product if the proprietor of the mark does not object. This fact has also been enhanced by dilution provisions in different statutes all over the world.<sup>149</sup>

## 2.5 INVESTMENT FUNCTION

Although most scholars and even courts hold that dilution protection is justified on the basis of the advertising or publicity function of trade marks, Port sees the investment function as the only possible justification for dilution protection.<sup>150</sup> The investment function is based on the following assumptions. The stronger or more famous the trade mark, the more the consumers will know of the products on which it is used. The result is that the search costs are lower, as are the consumer costs.<sup>151</sup> Therefore, if a company invests in a strong mark, society gets cheaper goods. This is according to Port the only true function that should be protected by trade-mark dilution.<sup>152</sup>

## 2.6 PROTECTION OF TRADE MARK FUNCTIONS

It is clear from the above discussion that trade marks have acquired additional functions over time. It is of utmost importance that these modern functions of trade marks are adequately protected. To achieve this goal additional protection outside that afforded by the confusion doctrine is necessary. Courts and legislatures have realised this and have begun to protect trade marks from uses which damage trade marks through dilution<sup>153</sup> of

<sup>149</sup> Kamperman Sanders & Maniatis (1993) 409 fn 27.

<sup>150</sup> Port (personal comments to the author in May 2000).

<sup>151</sup> Consumer costs includes the acquisition of reliable information about the source of a product, which also predicts the characteristics and quality of the goods. Denicola (1996) 80.

<sup>152</sup> Port (personal comments to the author in May 2000).

<sup>153</sup> This concept will be discussed in Chapter 3 "The Concept of Dilution and the Dilution Debate" *infra*.



their distinctiveness, but which do not necessarily result in a likelihood of confusion.<sup>154</sup> By doing this, these modern functions of a trade mark are protected.

The Benelux countries<sup>155</sup> in their interpretation of article 13A of the Uniform Benelux Trade Marks Act, have given a very broad interpretation as to what will be regarded as infringing use of a trade mark. They developed the concept of risk of association, which entails that if the public on seeing a certain sign, makes an association with a registered trade mark, although not confusing them, there can be trade-mark infringement.<sup>156</sup> By doing this, the Benelux countries have essentially accepted that the function of a trade mark is not confined to that of an indicator of the source or origin. It even goes beyond that of an indicator of the quality of the mark. They actually see the trade mark as having acquired a function, by way of publicity, whereby the mark can be kept continually in the minds of the public. The mark thus acquired goodwill, which may be independent of the origin and quality functions of that mark.<sup>157</sup>

In contrast, the Court of Justice of the European Communities, even in the 1970s still held the view that the relevant function of a trade mark is to guarantee to the consumer the origin of the goods and services.<sup>158</sup> In the 1980 and 1985 drafts of the Trademark Directive<sup>159</sup> the purpose of a trade mark is also still indicated as "an indicator of origin".

However, in the final version of the Directive the recognition of broader functions of trade marks can also be seen. A similar trend can be discovered in the Community Trade

<sup>154</sup> Vuk (1998) 862, 922; Lanham Act § 43, 45, 15 U.S.C.A. § 1125, 1127, as amended by the Federal Trademark Dilution Act of 1995; Uniform Benelux Trademarks Act art. 13A; 1994 United Kingdom Trade Marks Act s 10(3). See the discussion of these statutes *infra* in chapters 4 and 5.

<sup>155</sup> See Chapter 5.7.1 "Benelux Law" *infra* for a complete discussion on the Benelux countries and the interpretation of the Uniform Benelux Trademarks Act of 1971; Gielen (1992) 264.

<sup>156</sup> Harris PA "Wagamama: Confusion Still Reigns in the UK" (October 1995) *Trademark World* 12-13.

<sup>157</sup> Harris (1995 *TW*) 13; Harris PA "UK Trade Mark Law: Are You Confused?" (1995) 12 *European Intellectual Property Review* 601.

<sup>158</sup> See Gielen (1992) 264 for some references.

<sup>159</sup> See Davies IM (general editor) *Sweet & Maxwell's European Trade Mark Litigation Handbook* (1998) Sweet & Maxwell London 695-706 Appendix A. See Chapter 5.5 "The European Union and the Trademark Directive" *infra* for a discussion of the Trademark Directive.



Mark Regulation (CTMR),<sup>160</sup> although these two documents do not go as far as the Benelux law. In the tenth recital to the Trademark Directive, as well as the seventh recital to the CTMR, the function of a trade mark is stated as “*in particular* to guarantee the trade mark as an indication of origin”.<sup>161</sup> From this statement it is clear that the origin function is no longer regarded as the only function of a trade mark. Both the Directive and the Regulation also protect other functions of a trade mark, by providing for so-called dilution protection in articles 4(3), 4(4)(a) and 5(2) of the Directive and articles 8(5) and 9(1)(c) of the CTMR, whereby reputed marks are protected even in the absence of confusion. The result of the negotiations between the Member States was a clear recognition that other functions, for example facets of the advertising function like the communication, publicity and goodwill functions, are recognised under European trade-mark law.<sup>162</sup>

But then the United Kingdom’s Chancery Division, in the *Wagamama* case,<sup>163</sup> which was decided after the implementation of the 1994 Act, refused to acknowledge this modern view of the functions of a trade mark, by giving a strict origin-based decision.<sup>164</sup> If one looks at some recent decisions of the European Court of Justice there is, however, a tendency to treat the trade mark as an item of property. In the *Dior v Evora* case<sup>165</sup> the

<sup>160</sup> Council Reg. No. 40/94 on the Community Trade Mark, [1994] O.J. L11/1 [1995] O.J. O.H.I.M. 50; [1995] O.J. O.H.I.M. 511. See Davies (1998) 707-776 Appendix B for a copy of this Regulation. The CTMR is discussed in Chapter 5.6 “The Community Trade Mark” *infra*.

<sup>161</sup> Emphasis added.

<sup>162</sup> Gielen C “Likelihood of Association: What Does it Mean?” (February 1996) *Trademark World* 21; Kamperman Sanders A “The Wagamama Decision: Back to the Dark Ages of Trade Mark Law” (1996) 1 *European Intellectual Property Review* 4; Gielen (1992) 264, 266, 268.

<sup>163</sup> *Wagamama Ltd v City Centre Restaurants plc* [1995] F.S.R. 713; [1996] E.T.M.R. 23.

<sup>164</sup> See Chapter 5.7.2.3 “Cases on Section 10(2)” *infra* for a detailed discussion of this case and the position in English law.

<sup>165</sup> Case C-337/95 *Parfums Christian Dior v Evora BV*, 4 November 1997 [1998] R.P.C. 166. See also Norman H “Perfume, Whisky and Leaping Cats of Prey: A UK Perspective on Three Recent Trade Mark Cases before the European Court of Justice” (1998) 8 *European Intellectual Property Review* 306-307.



court recognised that a subsequent reseller of goods can damage the reputation of a trade mark, even where the condition of the goods was not impaired. It seems that the interests of the proprietor in a trade mark itself as a vehicle for the creation of goodwill can in this way be protected.



## CHAPTER 3

### THE CONCEPT OF DILUTION AND THE DILUTION DEBATE

#### 3.1 THE DEVELOPMENT OF DILUTION AS A LEGAL CONCEPT

It is generally accepted that the dilution theory originated in Germany in 1924.<sup>1</sup> The court<sup>2</sup> created the concept by protecting the trademark ODOL for mouthwash from use on steel products. The court held that the use of the mark ODOL even on non-competing goods, was “*gegen die guten Sitten*”.<sup>3</sup> Consumers would think of the mouthwash whenever they were exposed to ODOL on steel products. The court then concluded that it was in the utmost interest of the applicant that its mark was not diluted (*verwässert*), because if that happened the mark would lose its selling power.<sup>4</sup> There is, however, an earlier English case, viewed by some scholars as the origin of the dilution theory.<sup>5</sup> In the case *Eastman Photographic Materials*,<sup>6</sup> the concept of dilution was recognised, though not identified as such. The plaintiff argued that its trade mark KODAK was weakened by

<sup>1</sup> See Schechter FI “The Rational Basis of Trademark Protection” (1927) 40 *Harvard Law Review* 813 at 831; Vuk WT “Protecting Baywatch and Wagamama: Why the European Union Should Revise the 1989 Trademark Directive to Mandate Dilution Protection for Trademarks” (1998) 21 *Fordham International Law Journal* 863 at 889; Mostert FW “The Parasitic Use of Commercial Magnetism of a Trade Mark on Non-competing Goods” (1986) 11 *European Intellectual Property Review* 342; Martino T *Trademark Dilution* (1996) Clarendon Press Oxford 4-5; Middleton GE “Some Aspects of Trademark Dilution” (1957) 47 *The Trademark Reporter* 1023-1024.

<sup>2</sup> Civil Court, Elberfeld, 25 *Juristische Wochenschrift* 503; XXV *Markenschutz Und Wettbewerb* 264, 11 September 1925. Just a few years previously, in 1905, the Supreme Court in Hamburg found that the proprietors of the trade mark KODAK for cameras were not entitled to cancel the registration of KODAK for bath tubs, because the public would not believe that the products came from the same company.

<sup>3</sup> This phrase forms part of art 826 of the German Civil Code which provides that: “...one who designedly injures another in a manner violating the good morals [*gegen die guten Sitten*] is bound to indemnify the other for the injury”. Schechter (1927) 831.

<sup>4</sup> See Schechter (1927) 832. For a more detailed discussion of this case see Chapter 5.3 “Early Origins of Dilution in Europe” *infra*.

<sup>5</sup> Garcia JA “Trademark Dilution: Eliminating Confusion” (1995) 85 *The Trademark Reporter* 489 at 491; Wheeldon R “Trade Mark Dilution – What is it?” Lecture Notes 1 at 7.

<sup>6</sup> *The Eastman Photographic Materials Company Limited and Another v. The John Griffiths Cycle Corporation Limited and the Kodak Cycle Company Ltd.* 15 R.P.C. (1898) 105.



the defendant's use of the same mark on bicycles. The court agreed and ordered the defendant to stop the use of the trade mark on its bicycles.

In the United States there is a reported Court of Appeals (Third Circuit) case from 1925, *Wall v. Rolls-Royce of America*,<sup>7</sup> in which the power of a trade mark to form valuable associations in the minds of consumers was recognised.<sup>8</sup> The respondent was the well-known company manufacturing high quality automobiles and aeroplane engines. Rolls-Royce Tube Company sold mail-order radio tubes, which were described in advertisements as "Rolls-Royce" radio tubes.<sup>9</sup> Despite the evident absence of competition between the two companies, the court gave injunctive relief to Rolls-Royce of America. It accepted that the name Rolls-Royce had given its proprietors an established, distinctive and valuable business asset. The court found that it was the purpose of Wall to take the goodwill and reputation of the Rolls-Royce Company and to use these to convey a false impression to the public. This would injure the Rolls-Royce Company and substantially detract from its goodwill. The court however based the injunctive relief on the tenuous reasoning that both companies sold products that involved electricity!

In the 1924 case of *Vogue v. Thompson-Hudson Co.*,<sup>10</sup> the court found that the public would be deceived into believing that the plaintiff's magazine vouched for, sponsored, or approved the hats offered by the defendant under a mark that utilised the letter "V". The plaintiff owned two trade marks, namely "Vogue" and another one comprising of the letter "V" with the figure of a woman, known as the "V-Girl". The hats were marketed under the name "Vogue Hats" and another mark also using the letter "V". The court

<sup>7</sup> *Wall v. Rolls-Royce of America, Inc.*, 4 F.2d 333, 15 T.M.R. 239 (3<sup>rd</sup> Cir. 1925).

<sup>8</sup> See Taviss ML "Case-note: In Search of a Consistent Trademark Dilution Test: *Mead Data Central, Inc. v. Toyota Motor Sales, U.S.A., Inc.*, 875 F.2d 1026 (2<sup>nd</sup> Cir. 1989)" (1990) 58 *University of Cincinnati Law Review* 1449 at 1456.

<sup>9</sup> The quotation marks were used in the advertisements. The advertisements also said that the radio tubes were "like their name, significant of quality". The tubes were also prominently marked as Rolls-Royce, with no indication of the actual manufacturer.

<sup>10</sup> *Vogue Co. v. Thompson-Hudson Co.*, 300 Fed. 509 (6<sup>th</sup> Cir. 1924), rehearing denied, 12 F.2d 991 (1926), cert. denied, 273 U.S. 706 (1926).



ruled that the mark "Vogue" was substantially descriptive as it is synonymous with the word "style" or "fashion". There was also no exclusive use of the mark by the plaintiff. Concerning the "V" mark the court then found unfair competition, after explaining that in cases where there is unfairness, the absence of market competition can be overlooked.<sup>11</sup> The court concluded that this "is a sound principle, and should be applied in appropriate cases".

This radically new concept of dilution in United States trade-mark law was first identified as such in 1927 by Frank I. Schechter<sup>12</sup> in an article entitled *The Rational Basis of Trademark Protection*.<sup>13</sup> According to Schechter, who is considered the father of dilution law,<sup>14</sup> "the preservation of the uniqueness of a trademark should constitute the only rational basis for its protection...".<sup>15</sup> According to Port his implicit claim is that there is an unacceptable gap in trade-mark protection.<sup>16</sup> In Schechter's view, the first indication in case law that the identification function of a trade mark needs protection is to be found

<sup>11</sup> The court *inter alia* referred to *Eastman Co v. Kodak Co*, 15 R.P.C., cited above.

<sup>12</sup> See Vuk (1998) 863, 890; Gilson *Gilson on Trademark Protection & Practice* (1999) Matthew Bender & Company, Inc. § 5.12[1][b]; Pattishall BW "The Dilution Rationale for Trade Mark – Trade Identity Protection, its Progress and Prospects" (1977) 67 *The Trademark Reporter* 607; Seitz BG "The Actual Harm Requirement and the Federal Trademark Dilution Act: *Ringling Brothers-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Development*" (1999) 10 *Journal of Art and Entertainment Law* 113 at 115; Garcia (1995) 491; Port KL "The 'Unnatural' Expansion of Trademark Rights: Is a Federal Dilution Statute Necessary?" (1995) 85 *The Trademark Reporter* 525 at 529; Klieger RN "Trademark Dilution: The Whittling Away of the Rational Basis for Trademark Protection" (1997) 58 *University of Pittsburgh Law Review* 789 at 796-797; McCabe KB "Dilution-by-Blurring: A Theory Caught in the Shadow of Trademark Infringement" (2000) 68 *Fordham Law Review* 1827 at 1845-1846; Kim PE "Preventing Dilution of the Federal Trademark Dilution Act: Why the FTDA Requires Actual Economic Harm" (2001) 150 *University of Pennsylvania Law Review* 719 at 724; Webster CE & Morley GE *Webster & Page South African Law of Trade Marks, Unlawful Competition, Company Names and Trading Styles* 4<sup>th</sup> ed (1997) Butterworths Durban par 12.24. But see Higgins JR & Duvall SA "The FTDA after *Moseley v V.Secret*" (2003) 93 *The Trademark Reporter* 813 at 819 who seriously question Schechter's contribution to dilution law.

<sup>13</sup> Schechter (1927) 813-833. This article was actually based on a book, *The Historical Foundations of the Law Relating to Trade-Marks*, published by Shchecter in 1925. This book, his doctoral thesis, and long out of print, was appraised as one of the most outstanding works on trade-mark law. See Martino (1996) 16-17. He says that the article presents to its readers "only the edited highlights of the assiduous research, which would underscore the dilution rationale".

<sup>14</sup> See Martino (1996) 16-17, 22-27 for a vivid description of Schechter's background and work.

<sup>15</sup> Schechter (1927) 831. Schechter never actually referred to this concept as "dilution", although the word appears in his reference to the German *Odol* case, referred to in fn 2 *supra*. See also Pattishall BW "Dawning Acceptance of the Dilution Rationale for Trade Mark – Trade Identity Protection" (1984) 74 *The Trademark Reporter* 289; McCabe (2000) 1846 fn 138.

<sup>16</sup> Port (1995) 529.



in the 1926 case of *Duro Pump v. California Cedar Products*.<sup>17</sup> The court ruled that the trade mark DURO had become identified with the Duro Company and, if used by the California Cedar Products Company, would lead to confusion of identity. This loss of identity would become even more serious if other companies were to use it as well.

Schechter introduced many of the conceptual elements that make up the modern dilution doctrine.<sup>18</sup> These include the property aspects of trade marks. He argued that the right to the “preservation of the uniqueness of a trademark” amounted to a “property right”, which belonged to the proprietor of the trade mark and should be protected.<sup>19</sup> He also stressed the value of the selling power of a trade mark<sup>20</sup> and the role of distinctiveness in the protection of trade marks.<sup>21</sup> As trade marks themselves sell products, trade marks themselves should be protected.<sup>22</sup> Trade marks, in other words, stimulate sales by creating goodwill.<sup>23</sup> Confusion was not regarded as a necessary requirement for the provision of protection. The definition of the dilution concept formulated by Schechter furthermore only allowed for the protection of the trade mark if used upon non-competing goods.<sup>24</sup> A further limitation Schechter imposed on the use of the dilution remedy was that only famous marks merit protection. For this purpose they must at least

<sup>17</sup> *Duro Pump & Mfg. Co. v. Cal. Cedar Products Co.*, II. F.(2d) 205 (Ct. of App. D.C. 1926).

<sup>18</sup> Taviss (1990) 1456; Pattishall (1984) 289; Pattishall (1977) 607.

<sup>19</sup> Schechter (1927) 831 read in conjunction with Garcia (1995) 491. See also Klieger (1997) 796-797 who says that Schechter recognises an “in gross property right no more limited than that in the physical assets of a business” and Kim (2001) 725. See the in depth discussion on property rights in trade marks by Martino (1996) 78-85. Like Schechter, he comes to the conclusion that property rights should exist only in distinctive, thus coined or arbitrary, marks.

<sup>20</sup> The value of a trade symbol to generate sales was seen as its primary value, which should therefore be protected. See Denicola RC “Some Thoughts on the Dynamics of Federal Trademark Legislation and the Trademark Dilution Act of 1995” (1996) 59 *Law and Contemporary Problems* 75 at 85.

<sup>21</sup> Schechter (1927) 819 contended that the mark actually sells the goods and the more distinctive the mark, the greater its selling power.

<sup>22</sup> Marroletti W “Dilution, Confusion, or Delusion? The Need for a Clear International Standard to Determine Trademark Dilution” (1999) 25 *Brooklyn Journal of International Law* 659 at 662.

<sup>23</sup> See Martino (1996) 25.

<sup>24</sup> See Chapter 3.2 “Different Definitions of Dilution” *infra*. In the Federal Trademark Dilution Act of 1995 this is taken a step further by granting dilution protection also against use on competing goods. See Chapter 4.7 “The Federal Trademark Dilution Act of 1995” *infra*.



be arbitrary, coined or fanciful marks with prominent associations with particular products.<sup>25</sup>

Shortly after this the concept also got support, although indirectly, from the Court of Appeals (Second Circuit). The great judge,<sup>26</sup> Learned Hand, in *Yale Electric Corporation v. Robertson*<sup>27</sup> approved injunctive relief for the YALE trade mark, used on locks, against its use by someone else on flashlights. The court based its decision on “a loss of reputation rationale” and did not mention dilution as such. The language used by Justice Hand had an immense influence upon the law of trade-mark infringement and unfair competition and has been repeatedly quoted.<sup>28</sup> He said:

“However, it has of recent years been recognized that a merchant may have a sufficient economic interest in the use of his mark outside the field of his own exploitation to justify interposition by a court. His mark is his authentic seal; by it he vouches for the goods which bear it; it carries his name for good or ill. If another uses it, he borrows the owner’s reputation, whose quality no longer lies within his own control. This is an injury, even though the borrower does not tarnish it, or divert any sales by its use; for a reputation, like a face, is the symbol of its possessor and creator, and another can use it only as a mask.”

The court thus recognised that a merchant might have an economic interest in the use of his mark outside his normal field of operations and that this could justify interference by a court.<sup>29</sup> If another person used his mark, then the proprietor could no longer control the

<sup>25</sup> See also Pattishall (1977) 607; Klieger (1997) 813; Martino (1996) 26. See further Chapter 3.2 “Different Definitions of Dilution” *infra*.

<sup>26</sup> Port KL “Learned Hand’s Trademark Jurisprudence: Legal Positivism and the Myth of the Prophet” 27 (1996) *Pacific Law Journal* 221-222.

<sup>27</sup> *Yale Electric Corporation v. Robertson* 26 F.2d 972 (2<sup>nd</sup> Cir. 1928).

<sup>28</sup> Pattishall BW “The USA Courts and the Prevention of Unfair Competition” (1963) 53 *The Trademark Reporter* 599 at 602-603.

<sup>29</sup> The “Aunt Jemima Doctrine” (see Chapter 2.3 “Quality Function” *supra*) was further expanded by Hand in this case into what became known as the “Hand Doctrine”. The Doctrine can be defined as follows: “if an article bearing a copied symbol was a product that may be understood to have emanated from the plaintiff, the defendant’s use of such a mark should be enjoined. Subsequent to 1940, however, the “Hand Doctrine” came to stand for the opposite proposition, namely that actual confusion must be shown by the plaintiff. Port calls the latter the “Real Hand Doctrine”. See Port (1996) 245, 249.



quality of his reputation and this was regarded as an injury. This case according to Gilson was an important step in the development of the recognition of dilution in trademark protection.<sup>30</sup> Port, however, strongly feels that this reasoning is forced and that Gilson is wrong. According to him "Hand would never have gone with dilution".<sup>31</sup> Port, in a well-researched article on Learned Hand, writes the following:<sup>32</sup>

"Learned Hand's trademark jurisprudence...exhibits a rather amazing conservatism. ... He was extremely resistant to change. This is perhaps explained by what appears to be Hand's understanding of legal positivism – that law is a statement of the will of the sovereign and judges are not free to create law without a clear statement of authority from the State. This judicial philosophy by Hand actually had an extremely restrictive impact on the development of trademark law."

It thus seems that Justice Hand's judgment in the *Yale* case was used in a way that he himself would never have intended. The 1905 Act refused registration if the mark was used on goods of the *same descriptive properties*. Justice Hand did not believe that locks and keys were of the same descriptive properties as flashlights and batteries, but he felt that he must follow the positive law on the subject. Bound by the Second Circuit's judgment in the *Aunt Jemima* case, Justice Hand refused registration.<sup>33</sup> Port writes that Justice Hand spent the next thirty years in an attempt to confine his opinion in the *Yale* case.<sup>34</sup>

<sup>30</sup> Gilson (1999) § 5.12[1][b]. See Port (1996) 232 fn 86 for more proponents that hold the same opinion.

<sup>31</sup> Personal comments to the author in May 2000. See also Port (1996) 251-253, 295-260 for a discussion of subsequent judgments by Hand, from which a hostility towards trade-mark proprietors is apparent. Hand thus made a total reversal from his earlier judgements in *Yale* and *Waterman* (see fn 44 *infra*) to his judgments in cases after 1940.

<sup>32</sup> Port (1996) 223.

<sup>33</sup> Justice Hand thus followed the law as applied in the *Aunt Jemima* case, although he delivered the dissenting opinion in this case (Port (1996) 246-247). Martino (1996) 7 writes that Justice Hand actually extended trade-mark infringement in the *Aunt Jemima* case beyond competing goods to different but related goods. He, however, emphasised that Justice Hand's reasoning was based on the law of deceit and that the "predicate of trademark protection remained public confusion or deception".

<sup>34</sup> Port (1996) 223, 245. This case was, interestingly, the case for which Justice Hand was most often cited and on which much of his trademark jurisprudence fame was based. Martino (1996) 8-9 fn 21 also stated that Justice Hand was narrowing the scope of trade-mark protection in subsequent cases.



The *Yale* case was followed a year later by the very short judgment of Justice Coxe in *Alfred Dunhill of London v. Dunhill Shirt Shop*.<sup>35</sup> The applicant, a well-known manufacturer of pipes and other smokers' requisites, applied for injunctive relief against the defendants who had commenced using the name DUNHILL for their haberdashery shop, which made and sold men's shirts. The judge found that the only possible reason for the use of the name by the defendant was "to trade on the reputation and goodwill of the plaintiff".<sup>36</sup>

Another important common-law case during the early development of a dilution doctrine was *Tiffany & Company v. Tiffany Productions, Inc.*<sup>37</sup> This case, together with the *Wall v. Rolls-Royce* case,<sup>38</sup> is considered to be the foundation-stone of the dilution concept in United States law, although in both there was reliance on the element of confusion and defendant's wrongful intent to confuse.<sup>39</sup> Tiffany & Company, the famous jewelry corporation, instituted action to prevent a movie distributor from using the mark TIFFANY. Even though the court held that there was no competition between the companies, they granted an injunction on the basis of predatory advertising that emphasised a connection between the parties that did not exist. The court also stated that the real injury was the gradual whittling away of the identity and hold upon the public mind of plaintiff's name. Thus, although the court approved Schechter's theory, it did not accept it unequivocally, but referred to the issue of confusion.<sup>40</sup> This judgment was

<sup>35</sup> *Alfred Dunhill of London, Inc., v. Dunhill Shirt Shop, Inc.* 3 F.Supp. 487, 1929 U.S. Dist. LEXIS 1882 (S.D.N.Y. 1929). This is one of only two cases (the other one being *Bulova Watch Co., Inc., v. Stolzberg* 69 F.Supp. 543, 1947 U.S. Dist. LEXIS 2901, 72 U.S.P.Q. (BNA) 72 (D. Mass. 1947) discussed *infra*) noted by Denicola (1996) 85 as actually acknowledging trade-mark dilution as described by Schechter.

<sup>36</sup> The judge cited *Wall v. Rolls-Royce* and *Yale Electric Corp. v. Robertson*, both discussed above, as authority.

<sup>37</sup> *Tiffany & Company v. Tiffany Productions, Inc.* 147 Misc. 679, 264 N.Y. Supp. 459, 260 N.Y. Supp. 281 (Sup. Ct. 1932) affirmed 262 N.Y. 482, 188 N.E. 30 (1933). Klieger (1997) 814-815. See also Port (1995) 530. He mistakenly avers that the court applied the New York dilution statute, but New York only enacted their first dilution statute in 1955! See Chapter 4.3.1 "Protection and Related Problems" *infra*.

<sup>38</sup> See fn7 *supra*.

<sup>39</sup> Pattishall (1977) 608; Klieger (1997) 814; Note "Dilution: Trade Mark Infringement or Will-o'-The-Wisp?" (1964) 77 *Harvard Law Review* 520; reprinted in (1964) 54 *The Trademark Reporter* 184 at 190.

<sup>40</sup> See Callmann R "Unfair Competition without Competition" (1947) 37 *The Trademark Reporter* 175 at 178; reprinted from 95 *University of Pennsylvania Law Review* 443; Martino (1996) 14-15.



affirmed by the Appellate Division of the Supreme Court of New York.<sup>41</sup> Most courts, in these early cases, actually relied on a finding of confusion or intention to confuse, although they seem to support the existence of a dilution rationale.<sup>42</sup> The result was that a practice was characterised as an act of unfair competition, notwithstanding the absence of competition.<sup>43</sup>

An interesting limitation to this application of the common law in cases of non-competing goods was formulated by Justice Hand in *L.E. Waterman & Co. v. Gordon*.<sup>44</sup> In that case plaintiff used the trade mark WATERMAN'S on fountain pens when defendant started to sell razor blades under the name WATERMAN. Justice Hand stated that it is settled law that relief can also be granted against use of a trade mark upon "such other goods as might naturally be supposed to come from [the trade-mark proprietor]". He emphasised however that the protection given to non-competing goods should not be extended to cases where the relationship is too remote from any goods that the proprietor would be likely to make or sell, by using the example of steam shovels and lipsticks.<sup>45</sup> This was not the case here as razor blades might naturally be supposed to come from a pen maker. A decree for the plaintiff was thus affirmed by the court.<sup>46</sup> Not all dilution proponents would accept this limitation, especially in the case of coined or arbitrary marks with secondary meaning.<sup>47</sup>

<sup>41</sup> *Tiffany & Company v. Tiffany Productions Inc.* 237 A.D. 801, 260 N.Y.S. 821 (1932).

<sup>42</sup> Taviss (1990) 1457; Pattishall (1963) 621; Middleton (1957) 1026. For a brief discussion of more of these early cases, see Harvard note (1964) 190-191.

<sup>43</sup> Callmann (1947) 179. See further Chapter 3.5.3 "Role of the Status of the Trade-mark Proprietor's Right in the Dilution Debate" *supra* for his underlying theoretical justification for the granting of relief in cases like these.

<sup>44</sup> *L.E. Waterman & Co. v. Gordon*, 72 F.2d 272 (2<sup>nd</sup> Cir. 1934). See also Port (1996) 247 for his perspective on this case.

<sup>45</sup> *L.E. Waterman & Co. v. Gordon*, 72 F.2d 272 at 273 (2<sup>nd</sup> Cir. 1934): "It would be hard, for example, for the seller of a steam shovel to find ground for complaint in the use of his trade-mark on a lipstick". See also Harvard note (1964) 186. Martino (1996) 8 fn 14 notes that Justice Hand used the word "hard" not "impossible", thus if the steam shovel maker could indeed show that an appreciable percentage of consumers would think there is a connection between the two products, he can get relief.

<sup>46</sup> This was the last case where Justice Hand applied the *Aunt Jemima* Doctrine to the benefit of the plaintiff. In the words of Port (1996) 248 subsequent cases "take a remarkable shift and become extremely restrictive". After 1940 Justice Hand refused to apply the *Aunt Jemima* Doctrine.

<sup>47</sup> Harvard note (1964) 186.



In *Bulova Watch Co., Inc. v. Stolzberg*<sup>48</sup> the court granted an injunction to the plaintiff upon the basis of unfair competition, but used typical dilution language to describe the wrong. The plaintiff had registered the trade mark BULOVA in the class for watches, watch movements and watch cases. Although not fanciful, it was used for over 50 years and extensive advertising has been carried on by the plaintiff. Defendant, trading as "Eddy's Shoes" registered his trade mark BULOVA for shoes in 1941. The court referred to the notion that a trade mark serves as a symbol of goodwill and then stated that "unfairness" must form the basis for the intervention of the court. He referred to the *Waterman* rule,<sup>49</sup> that if the relationship between the products is not too remote, protection should be given. He then ruled that watches and shoes, while non-competing, are not so remote and might possibly come from the same source. He found that defendant "stands to injure plaintiff's reputation and dilute the quality of his trade mark".<sup>50</sup>

As early as 1932 there were attempts in the United States to enact a federal dilution statute. The so-called "Perkins" bill, drafted by Schechter,<sup>51</sup> made provision for a federally registered, coined or inventive or fanciful or arbitrary trade mark to be protected against injury to its goodwill, reputation and business credit, thus against dilutive uses.<sup>52</sup> There was, however, concern on the part of the Department of Justice regarding the creation of property rights in trade marks, which prevented the discussion and enactment

<sup>48</sup> *Bulova Watch Co., Inc. v. Stolzberg* 69 F.Supp. 543, 1947 U.S. Dist. LEXIS 2901, 72 U.S.P.Q. (BNA) 72 (D. Mass. 1947).

<sup>49</sup> This rule, formulated by Justice Hand in *L.E. Waterman & Co. v. Gordon* 72 F.2d 272 (2<sup>nd</sup> Cir. 1934), was discussed above.

<sup>50</sup> He also took into account the fact that defendant used the mark on low-priced shoes. The court also referred to *Wall v. Rolls-Royce of America* (fn 7 *supra*) as authority.

<sup>51</sup> Regrettably, Schechter died before the promulgation of the first state dilution statute by Massachusetts in 1947, leaving more questions than answers concerning the interpretation of dilution statutes. See Martino (1996) 26. For a discussion of the Massachusetts statute and other state legislation see Chapter 4.3.1 "Protection and Related Problems" *infra*.

<sup>52</sup> Gilson (1999) § 5.12[1][b]; Garcia (1995) 491; Martino (1996) 28; Belongia HL "Why is Fame Still Confusing? Misuse of the 'Niche Market Theory' Under the Federal Trademark Dilution Act" (2002) 51 *DePaul Law Review* 1159 at 1165. Marks that would certainly be protected under this statute are KODAK, ROLLS-ROYCE and TIFFANY. Trade marks like VOGUE would not be covered. In most cases however the courts would have to decide whether a mark comply with the precondition set in the statute on a case to case basis.



of the bill. The next step towards dilution protection would be taken by state legislatures in the United States.

The first statutory recognition of dilution took place in 1947, when the state of Massachusetts enacted a statute prohibiting dilution.<sup>53</sup> This was nearly twenty years after Schechter's article introducing the dilution theory. A steadily expanding legislative endorsement of the concept followed.<sup>54</sup>

### 3.2 DIFFERENT DEFINITIONS OF DILUTION

The first legal definition of the concept of dilution, although he did not use the word "dilution", was given by Schechter in 1927<sup>55</sup> in the following words:

"It is the gradual whittling away or dispersion of the identity and hold upon the public mind of the mark or name by its use upon non-competing goods. The more distinctive or unique the mark, the deeper is its impress upon the public consciousness, and the greater its need for protection against vitiation or dissociation from the particular product in connection with which it has been used."

He emphasised the fact that coined, arbitrary and fanciful words or phrases, as, for example, ROLLS-ROYCE, KODAK, MAZDA and NUJOL, deserve a much broader degree of protection than words and phrases in common use. These fanciful words and phrases have been added to rather than withdrawn from the human vocabulary.<sup>56</sup> They have from the beginning been associated with a particular product. If other people start to use these words on either related or non-related goods and services, they will definitely lose their effectiveness and unique distinctiveness, despite their originality and ingenuity.

<sup>53</sup> Act of 2 May 1947, ch. 307, § 7a, Mass. Acts 300 (codified as amended at Mass. Gen. Laws Ann. ch. 110B, § 12 (West 1996)); Vuk (1998) 863; Gilson (1999) § 5.12[1][b]; Garcia (1995) 492; Klieger (1997) 811; McCabe (2000) 1847. See also Chapter 4.3.1 "Protection and Related Problems" *infra*.

<sup>54</sup> The history of dilution and dilution protection in the United States Law from 1947 onwards will be discussed in Chapter 4.2 "Federal Trade-Mark Law since 1947" *infra* as contemporary law.

<sup>55</sup> Schechter (1927) 825. See Vuk (1998) 892; Taviss (1990) 1455; McCabe (2000) 1829.

<sup>56</sup> Schechter (1927) 828-830. Callmann (1947) 190 also reasons that the stronger the mark, the more extensive is its need for protection. Arbitrary, coined or fanciful marks should thus be given a much broader degree of protection.



This uniqueness was important, because trade marks serve, especially in a free-market economy, primarily as marketing tools.<sup>57</sup>

Therefore, trade-mark dilution occurs when a trade mark's distinctive quality is reduced due to the use of the trade mark on other products.<sup>58</sup> The American Heritage Dictionary defines dilution as "the process of making weaker or less concentrated". Numerous legal definitions of the concept of dilution were formulated after that of Schechter. McCarthy defines it as "a weakening or reduction in the ability of a mark to clearly and unmistakably distinguish one source".<sup>59</sup> Other definitions are: "the lessening of the capacity of a famous mark to identify and distinguish goods or services";<sup>60</sup> "the whittling away of an established trademark's selling power and value through its unauthorised use by others upon dissimilar products";<sup>61</sup> "the diminishment or reduction of a trademark's ability to clearly distinguish one source, thereby, creating the perception, in the consumer's mind, that a trademark no longer represents one source of goods because a second manufacturer is now using the trademark to represent another source";<sup>62</sup> the use of a identical or substantially similar mark, "triggering a mental association on the part of the consumer between the two marks, thereby eroding the strength of the original mark".<sup>63</sup>

It is clear from these and other definitions that the most important elements are the distinctive quality<sup>64</sup> of the infringed mark and the dissimilarity of the goods on which the marks are used.

<sup>57</sup> Schechter (1927) 822.

<sup>58</sup> Dilution of the distinctiveness of a trade mark, comprises only unauthorised uses of the mark. See Denicola (1996) 85.

<sup>59</sup> McCarthy JT *McCarthy on Trademarks* 4<sup>th</sup> ed (1996) West Group St Paul Minnesota § 24:67.

<sup>60</sup> Lanham Act § 45, 15 U.S.C. § 1127.

<sup>61</sup> *Allied Maintenance Corporation v. Allied Mechanical Trades, Inc.*, 42 N.Y.2d 538, 369 N.E.2d 1162, 1977 N.Y. LEXIS 2429, 399 N.Y.S.2d 628, 198 U.S.P.Q. (BNA) 418 (1977), which is regarded as a watershed case in the development of dilution. See Pattishall (1984) 295-297 for various definitions for dilution from cases between 1977 and 1984.

<sup>62</sup> Vuk (1998) 863.

<sup>63</sup> McCabe (2000) 1828. Belongia (2002) 1166 also emphasises this "mental association" created in the public's mind between the two marks.

<sup>64</sup> There is a difference in opinion between those scholars and courts requiring a mark to be famous, meaning a unique, arbitrary or coined mark and those scholars and courts seeing distinctiveness in the sense of the identifier of a product as enough to qualify for dilution protection. See Chapter 4.3.1



Distinctiveness plays an important role in the protection of trade marks from dilution. In the first place it should be remembered that distinctiveness is a requirement for a symbol to qualify as a trade mark. It is normally said that a symbol must be so distinctive that it is capable of performing the function of identifying and distinguishing the goods, which bear the symbol from other goods. Coined or arbitrary marks are usually accepted to be distinctive. Coined words are invented for the sole purpose of identifying a product, for example KODAK and POLAROID. Arbitrary marks are existing words, which are applied to a product in an unexpected and non-descriptive manner. The example of V-8 for a drink made from the juice of eight vegetables is given by Justice Roberts in *Wedgewood Homes, Inc. v. Lund*.<sup>65</sup> A mark can also become distinctive by acquiring a secondary meaning.<sup>66</sup> This happens when the mark become synonymous in the mind of a substantial part of the public with a particular business or product, rather than with its primary meaning. It is, however, essentially agreed by most courts that distinctiveness for dilution purposes means something more than distinctiveness for confusion purposes.<sup>67</sup>

Traditionally, there had to be use of the same or a similar mark on *different* goods for a finding of dilution. This was also reflected in many statutes, for example the Model State Trademark Bill,<sup>68</sup> on which most of the states in the United States of America based their state dilution statutes. Yet Pattishall notes that differences between goods can be so substantial that the use of the trade mark on the other product will be so remote that the

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"Protection and Related Problems" *infra*. Most modern statutes however require some degree of fame (Webster & Page (1997) par 12.27). See for example s 10(17) of the Trade Marks Act 194 of 1993, which requires a mark "well-known in the Republic"; § 43(c)(1) of the Lanham Act, 15 U.S.C. § 1125(c) requiring a "famous mark" and art. 5(2) of the European Union's Trademark Directive requiring that the mark must have "a reputation in the Member State". See also discussion in Chapter 6.4.2 "The Dilution Provisions (iv) Well known" *infra*.

<sup>65</sup> *Wedgewood Homes, Inc. v. Lund* 294 Or. 493, 659 P.2d 377, 222 U.S.P.Q. 446 (Or. Sup. Ct. 1983).

<sup>66</sup> Examples of such marks are AMERICAN airlines, FORD motor cars and KENTUCKY FRIED CHICKEN. These initially weak marks acquired strength through secondary meaning. In fact, they had become strong marks far beyond the minimum necessary for secondary meaning. See McCarthy (1996) § 11.83.

<sup>67</sup> Klieger (1997) 831-833.

<sup>68</sup> Model State Trademark Bill, § 12 (USTA 1965), which reads "notwithstanding the absence of competition between the parties..."



distinctiveness of the senior mark cannot be diluted.<sup>69</sup> He admits that these are “difficult, nebulous and ephemeral fact questions of state of mind reaction to given stimuli”. McCarthy is of the opinion that consumer surveys can be helpful in this regard. If it can be shown that the consumer, when seeing the defendant’s mark, would not even think of the plaintiff’s mark, there is no dilution.<sup>70</sup>

Middleton summed up the conditions that must be met for a claim of trade-mark dilution as follows: The mark must be arbitrary, coined or fanciful and substantially the same as those used by the plaintiff; the parties must use the mark on unrelated and non-competitive goods or services; and there must be a complete absence of actual or likely confusion.<sup>71</sup>

### 3.3 TRADITIONAL INFRINGEMENT CONTRASTED WITH DILUTION

The basis of the historical or traditional confusion of source rationale is deceit. The object and test is a likelihood of confusion or deception as to source with the goods of the prior user of the trade mark. This means that by protecting against confusion, trade-mark law protects consumers against deceptive sale practices and businesses against unfair competitive practices.<sup>72</sup> The rationale, therefore, is the right of consumers to protection from confusion of identity. This is also known as the consumer protection model.<sup>73</sup> Any mark that identifies source is thus entitled to protection against a likelihood of confusion.<sup>74</sup> The scope of “confusion” has expanded over time and now not only means confusion of source, but also confusion of sponsorship and even “post sale” confusion.<sup>75</sup>

<sup>69</sup> Pattishall (1984) 299. He refers to the example of “lipsticks and steamshovels” used by Justice Hand in the case of *L.E. Waterman Co. v. Gordon*, 72 F.2d 272, 273, 22 U.S.P.Q. 268, 269 (2<sup>nd</sup> Cir. 1934). See fn 45 *supra*.

<sup>70</sup> McCarthy JT “The 1996 Federal Anti Dilution Statute” (1998) 16 *Cardozo Arts and Entertainment Law Journal* 587 at 593.

<sup>71</sup> Middleton (1957) 1025-1026.

<sup>72</sup> Welkowitz DS “Protection against Trademark Dilution in the U.K. and Canada: Inexorable Trend or will Tradition Triumph?” (2000) 24 *Hastings International and Comparative Law Review* 63 at 66-67.

<sup>73</sup> Edgecombe JR “Off the Mark: Bringing the Federal Trademark Dilution Act in Line with Established Trademark Law” (2002) 51 *Emory Law Journal* 1247 at 1249.

<sup>74</sup> See Pattishall (1984) 308; Port (1995) 529; McCarthy (1996) § 23:1.

<sup>75</sup> Confusion of sponsorship implies that one knows that company A does not make product A, but one thinks that the company has approved product A or licensed someone else to use company A’s name.



The dilution doctrine, as it has developed, requires a totally different state of mind. It enables the trade-mark proprietor to protect his mark in cases where the traditional requirement of likelihood of confusion is absent. It therefore stands in sharp contrast to the confusion rationale. It recognises a second kind of damage, one that diminishes the trade mark's ability of functioning as an identification agent, thus protecting mark owners from a possible diminution in the value of their trade marks.<sup>76</sup> Garcia confirms that "the gravamen of a dilution complaint is that the continuing use of a mark similar to plaintiff's mark will inevitably have an adverse effect upon the value of plaintiff's mark and that if he is powerless to prevent such use, the plaintiff's mark will eventually be deprived of all distinctiveness."<sup>77</sup> The dilution doctrine, thus, does not protect the indication of source or origin of the goods, but rather the distinctive quality or selling power that is embodied in the mark itself. Protection is given against the detrimental effect to the distinctive character and unique quality of the mark, which could be caused through the association between the other sign and the registered trade mark and would weaken the strength of the registered mark.<sup>78</sup> The harm caused by dilution can thus be described as an undermining of the distinctiveness of a mark and the favourable association that has accrued as a result of the trade-mark proprietor's commercial success. The mark will no longer immediately call to mind only the product of the trade-mark proprietor.<sup>79</sup> In this way the mental image will be blurred. This harm caused by dilution will almost always be irreparable.<sup>80</sup> As the mark weakens, the owner furthermore loses the power to restrain any but the clearest cases of confusion.<sup>81</sup>

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"Post sale" confusion exists where the buyer is not confused about the manufacturer or sponsor, but people seeing the item in the buyer's house, are confused about its source. See Welkowitz (2000) 67.

<sup>76</sup> Welkowitz (2000) 67. Although trade marks are intangible assets, they can have enormous, sometimes even incalculable, value for the proprietor.

<sup>77</sup> Garcia (1995) 489-490 quoting from *Gilbert/Robinson Inc. v. Carrie Beverage-Missouri Inc.*, 758 F.Supp. 512 at 527, 19 U.S.P.Q.2d 1481 at 1490 (E.D. Mo. 1991), citing *WSM, Inc. v. Hilton*, 724 F.2d 1320 at 1332, 221 U.S.P.Q. 410 (8<sup>th</sup> Cir. 1984). See also Callmann (1947) 179.

<sup>78</sup> Kamperman Sanders A "Some Frequently Asked Questions about the 1994 UK Trade Marks Act" (1995) 2 *European Intellectual Property Review* 70 fn 31. See also Vuk (1998) 890-891.

<sup>79</sup> See example given by McCabe (2000) 1829. See also Welkowitz (2000) 67.

<sup>80</sup> See *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Celozzi-Ettelson Chevrolet Inc.*, 855 F.2d 480 at 485, 8 U.S.P.Q.2d 1072 (7<sup>th</sup> Cir. 1988).

<sup>81</sup> Harvard note (1964) 187.



Dilution is thus conceived as a concept completely separate from infringement. Infringement actions, as described, are based upon the prevention of fraudulent and deceitful practices. Dilution, in contrast, is rooted in trespass and according to some authors, makes provision for the protection of property rights, albeit incorporeal.<sup>82</sup> Traditional infringement and dilution hence look to distinct harms to a trademark and can be pleaded as alternative legal claims. The state of mind required for infringement as opposed to dilution is also distinct and dissimilar.<sup>83</sup> Dilution can in fact only occur when confusion as to source or origin is absent. If someone is confused, the mark remains the sole identifier of the senior user's product in his mind. He thus perceives the two marks as representing the same source. Dilution, on the other hand, occurs when the awareness that a specific mark signifies a single product from a single source, changes to an unmistakable awareness that the same mark signifies various things from various sources.<sup>84</sup> It presumes a mental association in a reasonable consumer's mind between the two parties and their marks, but the association is not so strong as to cause the consumer to believe the goods are coming from a single source. Or as McCarthy put it "[t]he relevant public sees the junior user's use, and *intuitively knows*, because of the context of the junior user's use, that there is no connection between the owners of the respective marks."<sup>85</sup> But the distinctive link between the plaintiff's mark and its goods is blurred, because the relevant public now also associates that trade mark with a new and different source. The junior user's use can therefore cause confusion in some people's minds and at the same time cause dilution in other people's minds. Both perceptions cannot however occur in one person's mind at the same time.<sup>86</sup>

<sup>82</sup> Taviss (1990) 1455; Pattishall (1984) 309; McCarthy (1998) 589; Garcia (1995) 500; Marroletti (1999) 662. Edgecombe (2002) 1250 explains that dilution emerged from the property model of trade marks in contrast with infringement which stems from the consumer protection model. Under the former model the trade-mark owner's (property) right in his mark is violated when another uses the same or similar mark or does something that damages the uniqueness of the mark, regardless of consumer confusion.

<sup>83</sup> See Voss MS "*Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Development & Nabisco, Inc. v. PF Brands, Inc.*" (2000) 15 *Berkeley Technology Law Journal* 265 at 281; McCabe (2000) 1841; Belongia (2002) 1169.

<sup>84</sup> Pattishall (1984) 300, 308.

<sup>85</sup> McCarthy (1998) 592, emphasis added; McCarthy (1996) § 24:70.

<sup>86</sup> McCabe (2000) 1841. See also the example given in *Viacom Inc. v. Ingram Enters., Inc.*, 141 F.3d 886 at 891 fn 9 (8<sup>th</sup> Cir 1998).



It is also important to note that the damage due to dilution, unlike damage due to confusion, is not immediate. Dilution harm is caused subtly and gradually and has been described as something like a virus infection or a cancer. If allowed to spread it will inevitably destroy the distinctiveness of the trade mark, by rendering the mark generic<sup>87</sup> or available to common use.<sup>88</sup>

What the likelihood of confusion and dilution concepts have in common is that both of them deal with the rather ephemeral "state of mind". This could also contribute to the confusing opinions regarding the justification for and application of the dilution concept. Both concepts, as Pattishall explains,<sup>89</sup> can relate only to the "state of mind" or consciousness of the people who come across the infringing mark. He continues:

"Neither tort may be expected to exist in one hundred percent terms. As to those who are confused, there can be no dilution of distinctiveness of the prior mark because from their confusion they believe there is only one source. As to those who are not confused, however, the accused mark is another use, and therefore, the distinctiveness of the prior mark may be diluted by their awareness of the additional use."

He therefore concludes that it is not so rare to find dilution of the distinctive quality of the mark in cases where there appears no likelihood of confusion. Although likelihood of confusion and dilution address different harms, they can nevertheless coexist as legal findings. It can for example be proved that a significant number of people will be confused, while simultaneously among a significant number of people that are not confused, there will be dilution.<sup>90</sup>

<sup>87</sup> This can happen through non-commercial use of a mark, in for example dictionaries and books. If the mark becomes generic, the owner will have no protection at all. See Harvard note (1964) 188.

<sup>88</sup> Callmann (1947) 179; Vuk (1998) 891; Gilson (1999) § 5.12[1][c][i]; Mostert FW "Well-known and Famous Marks: is Harmony Possible in the Global Village?" (1996) 86 *The Trademark Reporter* 103 at 141; Lunsford JR "Trademarks: Dilution and Deception" (1973) 63 *The Trademark Reporter* 41 at 47. *Polaroid Corp. v. Polaroid Inc.*, 319 F.2d 830 at 836 (7<sup>th</sup> Cir. 1963); *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Celozzi-Ettelson Chevrolet Inc.*, 855 F.2d 480 at 484, 8 U.S.P.Q.2d 1072 (7<sup>th</sup> Cir. 1988).

<sup>89</sup> Pattishall (1977) 614-615. See also McCarthy's explanation *supra*, as well as Voss (2000) 281.

<sup>90</sup> See the reasoning of McCarthy (1998) 592.



The careless use of another's trade mark by a third party can also block the trade-mark proprietor from expanding the use of its mark to other goods.<sup>91</sup> It may well be that the trade-mark proprietor decides to expand his product range, even to goods that are quite unrelated to his initial range of products. Use of a mark can also be expanded by trade-mark licensing, which may then be impeded by dilution. Sometimes a trade-mark proprietor may even expand his business by acquiring a manufacturer of unrelated products, which products he then wants to sell under his own trade mark.

### 3.4 TYPES OF DILUTION

The first and primary theories formulated by the United States courts as to how dilution occurs, are blurring and tarnishment.<sup>92</sup> Later on, the courts also invented other peripheral theories, named genericisation and disparagement or imitative dilution. Port also mentions dilution by alteration.<sup>93</sup> Most recently, another type of dilution has received prominence, namely domain name dilution or cybersquatting.<sup>94</sup>

<sup>91</sup> Gilson (1999) § 5.12[2][a].

<sup>92</sup> Vuk (1998) 893; Denicola (1996) 85. See for example also *Mead Data Central, Inc. v. Toyota Motor Sales, U.S.A., Inc.*, 875 F.2d 1026 (2<sup>nd</sup> Cir. 1989) at 1031.

<sup>93</sup> Port KL "The Congressional Expansion of American Trademark Law: A Civil Law System in the Making" (2000) 35 *Wake Forest Law Review* 827 at 879.

<sup>94</sup> This is actually a subject on its own and will not be addressed in any detail in this dissertation. Although some scholars, for example Port (personal comments to the author in May 2000) and McCabe (2000) 1843, view the relatively recent occurrence of "domain name dilution" as a separate kind of dilution, others find it preferable to accommodate it under blurring or tarnishment or even imitative dilution. Domain name dilution, in short, arises when a third party incorporates another person's famous trade mark into a domain name on the Internet and makes commercial use of it (Gilson (1999) § 5.12[1][c][i]). What most frequently happens, is that customers of the trade-mark proprietor attempt to use the name in an attempt to find his website. As someone else is using the name for his website, the name and reputation of the proprietor are placed beyond his control and there is an inherent lessening of the distinctiveness of the famous mark (Gilson (1999) § 5.12[1][c][i]). See also *Panavision Int'l, L.P. v. Toeppen*, 141 F.3d 1316, 46 U.S.P.Q.2d 1511 (9<sup>th</sup> Cir. 1998) and the Anti-cybersquatting Consumer Protection Act, Pub L No 106-113, 113 Stat. 1537 (1999) (codified as amended at 15 USC 1125(d) (1999)) or § 43(d) of the Lanham Act. Port (2000) 882 refers to this Act as the Anti-cybersquatting Trademark Owner Monopoly Act, as it, according to him, protects the trade-mark owner and not the consumer. See discussion in Port (2000) 882-887.



### 3.4.1 BLURRING<sup>95</sup>

This theory may be referred to as one of the classic or traditional methods of dilution. In the *Mead Data* case<sup>96</sup> blurring was defined as “the whittling away of an established trademark’s selling power and value through its unauthorized use by others upon dissimilar products”. Dilution by blurring occurs when a distinctive trade mark, or one similar to it, is used in connection with non-competing goods in such a way that the uniqueness or distinctiveness of the trade mark and its capacity to identify source is damaged.<sup>97</sup> In *Deere v. MTD Products* the court described blurring as occurring where the *defendant* uses or modifies the *plaintiff’s* trade mark to identify the *defendant’s* goods and services, with the result that the trade mark loses its ability to serve as a unique identifier of plaintiff’s product.<sup>98</sup> Another way to describe blurring is that it occurs where a consumer sees a junior user’s mark and has a mental association with the senior user, although he knows that the senior user is not the source of the goods.<sup>99</sup>

In cases of dilution by blurring the consumer thus knows that the senior trade-mark proprietor did not produce the goods on which the junior user affixed the trade mark, but on seeing the same or a similar mark on the goods, no longer associates the senior user’s mark with its goods, but instead begins associating both the senior user and the junior user with the mark.<sup>100</sup> Over time, as the trade mark is used on various goods and associated with them, the trade mark will no longer serve to ensure a unique association

<sup>95</sup> Port (1995) 526 fn 9 uses the term “pure dilution” instead of dilution by blurring.

<sup>96</sup> *Mead Data Cent., Inc. v. Toyota Motor Sales, U.S.A., Inc.*, 875 F.2d 1026, 1031, 10 U.S.P.Q.2d 1961 (2<sup>nd</sup> Cir. 1989). See Chapter 4.3.3.1 “Second Circuit Cases” *infra* for a discussion of this case.

<sup>97</sup> Horwitz E & Prager EA “What is Dilution and How is it Proved?” (2 December 1996) *The New York Law Journal* retrieved from the website <http://www.ljextra.com/trademark/dilution.html> on 21 January 1999, no page numbers provided. See also the definition of Webster & Page (1997) par 12.24, which corresponds closely to the one of Horwitz & Prager. See also Mostert FW “Trade Mark Dilution and Confusion of Sponsorship in United States, German and English Law” (1986) 17 *International Review of Industrial Property and Copyright Law* 80 at 87; Klieger (1997) 823-827; McCabe (2000) 1842.

<sup>98</sup> *Deere & Co. v. MTD Prod., Inc.*, 41 F.3d 39 at 43, U.S.P.Q. 2d 1936 (2<sup>nd</sup> Cir. 1994), emphasis added. Although blurring was defined as such in the *Deere* case, the court found that the facts did not fit in under blurring. This case actually fits in under “imitative dilution”. See Chapter 4.3.3.1 “Second Circuit Cases” *infra* for a discussion of the *Deere* case.

<sup>99</sup> Marroletti (1999) 663; McCabe (2000) 1842; Kim (2001) 733.

<sup>100</sup> *Times Mirror Magazines Inc. v. Las Vegas Sports News*, 212F.3d 157 at 168, 2000 U.S. App. LEXIS 8553 (3<sup>rd</sup> Cir 2000).



of the mark with the senior user's goods and therefore it will become blurred.<sup>101</sup> Schechter uses the now oft quoted example of ROLLS-ROYCE to illustrate the concept. If competitors were allowed to use the ROLLS-ROYCE trade mark on any type of goods, the ROLLS-ROYCE trade mark would be lost, because the association between the trade mark and the ROLLS-ROYCE car would be blurred.<sup>102</sup> Other oft-quoted examples of blurring are DUPONT shoes, BUICK aspirin, SCHLITZ varnish, KODAK pianos and BULOVA gowns.<sup>103</sup>

Some cases<sup>104</sup> in which blurring was found to have occurred are *Mead Data Central, Inc. v. Toyota Motor Sales, U.S.A., Inc.*,<sup>105</sup> where the court found that LEXUS for cars does not blur LEXIS for computer software; *McDonald's Corporation v. McBagel's, Inc.*,<sup>106</sup> where it was decided that McBAGELS for bagels blurs McDONALD's trade marks and *Hyatt Corporation v. Hyatt Legal Services*,<sup>107</sup> where HYATT, originally used in respect of plaintiff's hotel chain was prohibited in respect of defendant's legal services chain.

<sup>101</sup> Mostert (1986 *IIC*) 88. Jacoby J "The Psychological Foundations of Trademark Law: Secondary meaning, Genericism, Fame, Confusion and Dilution" (2001) 91 *The Trademark Reporter* 1013 at 1046-1047 uses the example of ROLEX to demonstrate this point. Consumers who know the famous trade mark, ROLEX, form a particular cognitive network when hearing the name. They think of high quality, high performance, luxury watches, which convey a certain status to the wearer. A second comer starts to use the name ROLEX on vacuum cleaners. The consumers are not confused, but now possess two cognitive networks for the same mark. From now on there will be a "blurring of the mental associations evoked by the mark". The ability of the mark to "uniquely evoke the cognitive network originally associated with that mark has been whittled away or diluted".

<sup>102</sup> Quoted in Vuk (1998) 894 and Martino (1996) 28: "If you take Rolls Royce – for instance, if you allow Rolls Royce restaurants and Rolls Royce cafeterias, and Rolls Royce pants, and Rolls Royce candy, in 10 years you will not have the Rolls Royce mark any more." Schechter used this example in an address to the Congressional Committee on Patents in 1932 to convince them to recognise the concept of dilution.

<sup>103</sup> Voss (2000) 269.

<sup>104</sup> Cases decided under the Federal Trademark Dilution Act of 1995 in which there were signs of blurring, are discussed in Chapter 4.10.6 "Cases on Blurring" *infra*.

<sup>105</sup> *Mead Data Central, Inc. v. Toyota Motor Sales, U.S.A., Inc.*, 875 F.2d 1026, 1032, 10 U.S.P.Q.2d 1961 (2<sup>nd</sup> Cir. 1989). See Chapter 4.3.3.1 "Second Circuit Cases" *infra* for a discussion of this case.

<sup>106</sup> *McDonald's Corporation v. McBagel's, Inc.*, 649 F.Supp. 1268, 1 U.S.P.Q.2d 1761 (S.D.N.Y. 1986). See Chapter 4.3.3.1 "Second Circuit Cases" *infra*.

<sup>107</sup> *Hyatt Corporation v. Hyatt Legal Services*, 736 F.2d 1153, 222 U.S.P.Q.2d 669 (7<sup>th</sup> Cir. 1984). For a discussion see Chapter 4.3.3.2 "Seventh Circuit Cases" *infra*.



### 3.4.2 TARNISHMENT<sup>108</sup>

Just as the distinctiveness of a trade mark is protected by the blurring theory of dilution, the quality associations that consumers have for a trade mark, is protected by the tarnishment theory.<sup>109</sup> While blurring focuses on associations between the two marks, tarnishment focuses on the evaluative aspect of those associations.<sup>110</sup> A further distinction is that blurring focuses on the quantity and strength of associations and tarnishment on the quality of the associations of the plaintiff's mark.

The following definitions of tarnishment have been given. McCarthy describes tarnishment as degrading positive associations of a mark, which in that way dilutes the distinctive quality of the mark.<sup>111</sup> In the *Deere* case, dilution by tarnishment is described as occurring where the plaintiff's trade mark is linked to products of shoddy quality, or is portrayed in an unwholesome or unsavory context, which will give rise to unflattering thoughts about the plaintiff's product.<sup>112</sup> It can also be described as detraction from the trade-mark proprietor's goodwill due to the use of the trade mark on products produced by an infringer whose goods cause public dissatisfaction, which is then held against the trade-mark proprietor.<sup>113</sup> In all these cases consumers are led to see the senior trade mark in an unflattering way and thus the senior trade mark's reputation and commercial value are diminished. Consumers will now associate the lack of quality or lack of prestige of

<sup>108</sup> Klieger (1997) 828 also refers to the term "evaluation dilution" as a synonym for tarnishment.

<sup>109</sup> Vuk (1998) 895; Harvard note (1964) 186; Marroletti (1999) 664; Kim (2001) 731-732.

<sup>110</sup> Jacoby (2001) 1050-1052.

<sup>111</sup> McCarthy (1998) 593. See also *Triomed (Pty) Ltd v Beecham Group plc* [2001] 2 All SA 126 (T) 155; 2001 2 SA 522 (T) 557C where the court stated that "[t]arnishing occurs where unfavourable associations are created between the well-known registered trade mark and the mark of the defendant". The court went on to say "[i]t is an impairment of the well-known mark's capacity to stimulate the desire to buy". See also *SAB International t/a Sabmark International v Laugh It Off Promotions* [2003] 2 All SA 454 (C); *Laugh It Off Promotions CC v SA Breweries International (Finance) BV t/a Sabmark International* [2004] 4 All SA 151 (SCA); Mostert (1986 IIC) 89; Martino (1996) 60; Port (2000) 879.

<sup>112</sup> *Deere & Co v. MTD Prods., Inc.*, 41 F.3d 39 at 43, U.S.P.Q.2d 1936 (2<sup>nd</sup> Cir. 1994). See also *Hormel Foods Corp. v. Jim Henson Prod., Inc.*, 73 F.3d 497, 37 U.S.P.Q.2d 1516 (2<sup>nd</sup> Cir. 1996) at 507, also referred to as the SPAM case. The court held in this case that there was no dilution through blurring or tarnishment of appellant's mark SPAM for luncheon meat by respondent's intended use of a character named "Spa-am" on merchandise related to respondent's film "Muppet Treasure Island". Gilson (1999) § 5.12[1][f][iv]. See Chapter 4.3.3.1 "Second Circuit Cases" *infra* for a discussion of both cases.

<sup>113</sup> *Tiffany & Co. v. Boston Club, Inc.*, 231 F.Supp. 836 at 844; 1964 U.S. Dist. LEXIS 9081; 143 U.S.P.Q. (BNA) 2 (D.Mass. 1964).



the defendant's goods with the plaintiff's unrelated goods. In the *Clinique* case<sup>114</sup> the court also indicated that tarnishment would take place where the defendant was attempting to associate the plaintiff's products with obscenity or sexual or illegal activity.

Unlike blurring, tarnishment can also take place when the mark is used to "refer back" to the trade-mark proprietor in the course of commentary, criticism or parody. This however raises substantial constitutional and public policy issues.<sup>115</sup>

Certainly the most well-known case of tarnishment is the one of *Coca-Cola Co. v. Gemini Rising, Inc.*,<sup>116</sup> where the court had enjoined the use of the slogan ENJOY COCAINE in the same colour and script as the famous, registered ENJOY COCA-COLA trademarked slogan. Another example is the one where the court ruled against the use of the slogan WHERE THERE'S LIFE ... THERE'S BUGS.<sup>117</sup> The defendant used this slogan in the sale of a combined floor wax and insecticide. The successful plaintiff was the proprietor of the slogan WHERE THERE'S LIFE ... THERE'S BUD, which was used in the sale of BUDWEISER beer. The trial court, which granted a permanent injunction, stated that "the association of bugs with BUD or BUDWEISER is sufficient to merit the apprehension that the ill repute of one type of goods is likely to be visited upon the other".<sup>118</sup> Editorial or artistic parodies of famous trade marks are today frequently allowed, but the First Amendment is less protective of parodies that identify a commercial product, such as clothing.<sup>119</sup> Another example of tarnishment is to be found in *Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*<sup>120</sup> Cases decided under

<sup>114</sup> *Clinique Laboratories, Inc., v. Dep Corp.*, 945 F. Supp. 547 (S.D.N.Y. 1996) at 562. See Chapter 4 fn 554.

<sup>115</sup> See Denicola (1996) 86 and the cases discussed there. This paragraph refers specifically to First Amendment Rights under the United States Constitution. See also Chapter 4.7.3 "Exceptions to Liability under the Act" *infra*.

<sup>116</sup> *Coca-Cola Co. v. Gemini Rising, Inc.*, 346 F.Supp. 1183, 175 U.S.P.Q. 56 (E.D.N.Y. 1972); Martino (1996) 61.

<sup>117</sup> *Chemical Corporation of America v. Anheuser-Busch, Inc.*, 306 F.2d 433, 134 U.S.P.Q. (BNA) 524, 2 A.L.R. 3d 739 (5<sup>th</sup> Cir. 1962).

<sup>118</sup> *Chemical Corporation of America v. Anheuser-Busch, Inc.*, 306 F.2d 433 at 435, 134 U.S.P.Q. (BNA) 524, 2 A.L.R. 3d 739 (5<sup>th</sup> Cir. 1962). This was endorsed by the court of appeal.

<sup>119</sup> McCabe (2000) 1843 fn 116; Gilson (1999) § 5.12[1][c][i]. See also Chapter 4.7.3 "Exceptions to Liability under the Act" *infra*.

<sup>120</sup> *Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd.* 604 F.2d 200, 203 U.S.P.Q. 161 (2<sup>nd</sup> Cir. 1979). In this case there was pornographic use of the Dallas Cowboys Cheerleading costumes. This is



the Federal Trademark Dilution Act of 1995 in which there were signs of tarnishment, are discussed *infra*.<sup>121</sup>

Some commentators, however, strongly feel that tarnishment “cannot logically be classified as trademark dilution”.<sup>122</sup> The reason given is that the harm caused by tarnishment is much more immediate and the injury to the senior mark is almost direct, in contrast to the “gradual whittling away” of the selling power of the mark envisaged by the dilution definition.

### 3.4.3 GENERICISM/GENERICISATION<sup>123</sup>

A generic term is considered to be inherently non-distinctive and for that reason can never function as a trade mark.<sup>124</sup> Generic marks are descriptive terms used to name a class, category or genus of products or services of which the particular product is a species. Therefore they are incapable of identifying the originator or even source of the goods.<sup>125</sup> Moreover, trade marks can become generic when they lose their distinctive character or source-related associative significance. This change in status is known as

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one of the strongest cases of tarnishment as there is a special threat to the good name and goodwill of the true owner. See Chapter 4.4 “Federal Dilution Protection before the Federal Act” *infra* for the discussion of this case.

<sup>121</sup> See Chapter 4.10.7 “Cases on Tarnishment” *infra*. These cases are *Anheuser-Busch, Inc., v. Andy's Sportswear, Inc.*, 40 U.S.P.Q.2d 1542 (N.D. Cal. 1996) [BUDWEISER/BUTTWISER]; *Hasbro, Inc. v. Internet Entertainment Group, Ltd.*, 40 U.S.P.Q.2d 1479 (W.D. Wash. 1996) [CANDY LAND/CANDYLAND]; *Toys “R” Us v. Akkaoui* 1996 U.S. Dist. LEXIS 17090, 40 U.S.P.Q.2d (BNA) 1836 (N.D. Cal. 1996) [TOYS “R” US/ADULTS “R” US].

<sup>122</sup> Klieger (1997) 830-831.

<sup>123</sup> Some commentators classify “use of a trade mark in a generic sense” under blurring (Webster & Page (1997) par 12.24; Mostert (1986 *IIC*) 88), but in this dissertation it will be discussed as a separate form of dilution. Martino (1996) 57 also refers to the terms “genericide”, “generization” and “trademarkicide” as synonyms for genericism. See Martino (1996) 57 fn 7 for the abundant literature on this subject.

<sup>124</sup> The terms “generic” and “trade mark” are mutually exclusive. See McCarthy (1996) Chapter 12 “Generic Terms” for a detailed discussion of this subject. See also Landes WM & Posner RA “Trademark Law: An Economic Perspective” (1987) 30 *Journal of Law and Economics* 291-296. Webster & Page (1997) par 13.17.3 state that distinctiveness is the very essence of a trade mark. S 10(2)(c) of the South African Trade Marks Act 194 of 1993 states that a mark which “consists exclusively of a sign or an indication which has become customary in the current language or in the *bona fide* and established practices of the trade” shall not be registered or if registered, shall be liable to be removed from the register. See also Webster & Page (1997) par 13.17.4.

<sup>125</sup> Port KL “The Illegitimacy of Trademark Incontestability” (1993) 26 *Indiana Law Review* 519 at 529.



genericide or genericisation.<sup>126</sup> The key determinant of genericisation in the United States is consumer perception. In the United Kingdom the test is more objective, namely the mark must have “become the common name *in the trade* for a product or service for which it is registered” and the mark’s decline must be “in consequence of acts or inactivity on the part of the proprietor” of the mark.<sup>127</sup> Webster and Page refer to an old English case in which it was said that if the mark has come to be so public and in such universal use that nobody can be deceived by the use of it, it has become generic.<sup>128</sup>

Trade-mark genericisation can occur when a competitor uses a trade mark in a way that encourages the public to view the mark as a product type and not as a source indicator or identifier.<sup>129</sup> It can also happen where other people use the trade mark in relation to the same goods as those of the proprietor,<sup>130</sup> or when it is used generically by newspapers, magazines, dictionaries and similar publications.<sup>131</sup> Trade-mark owners are themselves often to blame.<sup>132</sup> If a trade mark is repeatedly used in this way, its ability to distinguish the proprietor’s goods is weakened and in the end it loses its distinguishing function. The trade mark becomes generic and the trade-mark proprietor loses all legal protection. Use of a trade mark in a generic sense is sometimes also considered as dilution by blurring.<sup>133</sup> Well-known examples of famous marks that have become generic in this way are lite for beer, shredded wheat, thermos,<sup>134</sup> yo-yo, aspirin, elevator, linoleum and cellophane.

The test is whether the primary significance of the mark identifies the producer or the product. If the mark identifies the product, rather than the producer, it has become

<sup>126</sup> See Carter SL “Does it Matter Whether Intellectual Property is Property?” (1993) 68 *Chicago-Kent Law Review* 715 at 722. Carter argues that if trade marks are seen as property, the public would have to compensate the trade mark proprietor (in cash) if they use his trade mark in a generic sense. This seems to be fair as the only reason for the generic use of a trade mark normally is linguistic convenience.

<sup>127</sup> Martino (1996) 117; Trade Marks Act of 1994 s 46(1)(c), emphasis added.

<sup>128</sup> Webster & Page (1997) par 13.17.4.2, referring to the case of *Ford v. Foster* (1872) LR 7 Ch 611 at 628.

<sup>129</sup> Vuk (1998) 896-897. Use of a trade mark in a generic sense would typically be in relation to competing goods. See Webster & Page (1997) par 12.24.

<sup>130</sup> Webster & Page (1997) par 12.24.

<sup>131</sup> Mostert (1986 *IIC*) 88.

<sup>132</sup> Martino (1996) 59.

<sup>133</sup> Webster & Page (1997) par 12.24; Mostert (1986 *IIC*) 89.

<sup>134</sup> Lunsford JR “Consumers and Trademarks: The Function of Trademarks in the Marketplace” (1974) 64 *The Trademark Reporter* 75 at 82-83.



generic.<sup>135</sup> Any competitor may then freely use the mark. It is presumed that the public then owns the term and it can never function as a trade mark again. There is however a historical exception. In 1896 the mark SINGER for sewing machines was found to be generic.<sup>136</sup> Singer however continued its use and in 1953 it was found to be a distinctive mark again, after establishing a new secondary meaning through use.

This issue came to court in a recent decision of the Seventh Circuit in *Ty Inc v. Ruth Perryman*.<sup>137</sup> Perryman sells second-hand Beanie Babies, most of them manufactured by Ty through a website named [www.bargainbeanies.com](http://www.bargainbeanies.com). Ty manufactures bean-filled toys and owns the trade marks BEANIES and BEANIE BABIES. Ty issued proceedings against Perryman claiming dilution of its rights in the BEANIE and BEANIES trade marks. The court found that being descriptive names, the trade marks would easily become generic names, in particular since the word “beanies” is catchier than “bean bag stuffed animals” or “bean bag toys”. The court decided that it is against the public interest to use dilution laws to prevent commercial uses of a trade mark which would accelerate its transition from trade mark to generic name. The court thus refused to extend the principle of dilution to prevent the BEANIE trade marks from becoming generic.

### 3.4.4 DISPARAGEMENT OR IMITATIVE DILUTION<sup>138</sup>

According to Vuk, trade mark disparagement occurs when a junior user alters a senior user's mark in such a way as to mock or denigrate it. He gives the example where an advertiser mocks a widely recognised mark of another product to promote a different product.<sup>139</sup> This is not the same as the use of another person's unaltered trade mark in

<sup>135</sup> Port KL “Foreword: Symposium on Intellectual Property Law Theory” (1993) 68 *Chicago-Kent Law Review* 585 at 596-597; Port (1993 *Indiana LR*) 530; Lunsford (1974) 82.

<sup>136</sup> See Port (1993 *Chicago-Kent LR*) 597 fn 85.

<sup>137</sup> *Ty Inc. v. Ruth Perryman*, Case No. 02-1771 (7<sup>th</sup> Cir. 2002). See the discussion in Albertini L “Contradictory Decisions? Dilution issues compared in US and UK cases” (December/January 2003) *Trademark World* 23-25.

<sup>138</sup> So called by Port (personal comments to the author in May 2000). Port only recognises three types of dilution: blurring, tarnishment and imitative dilution.

<sup>139</sup> Vuk (1998) 896.



comparative advertising or even the use of a mark in parody, which might both be allowed. The best example of disparagement in case law, is probably the *Deere* case.<sup>140</sup> An altered version of a competitor's trade mark was used to identify this competitor in a comparative advertisement. The court found that there was neither blurring nor tarnishment, but that "the blurring/tarnishment dichotomy does not necessarily represent the full range of uses that can dilute a mark...".<sup>141</sup> Although the court found that there was dilution of the DEERE logo, it did not specifically mention disparagement either.<sup>142</sup>

### 3.4.5 ALTERATION

Dilution by alteration occurs where one entity in the process of comparative advertising alters the trade mark of another and presents it to consumers in that altered form, whether or not it is coupled with the intention to tarnish.<sup>143</sup>

## 3.5 THE DILUTION DEBATE

There is still a debate amongst legal scholars and judges on whether trade marks deserve protection against unauthorised uses that cause dilution of the distinctive character and reputation of the trade mark in the absence of a likelihood of confusion. Those against protecting trade marks from uses that cause dilution, the so-called restrictionists, mainly fear that dilution protection will give the proprietor of the trade mark a monopoly in words.<sup>144</sup> They also feel that dilution does not address a real injury to trade marks. Some of them also argue that the only function of trade marks is still the designation of origin. Welkowitz, for example, contends that dilution is based on "tenuous assumptions and represents an unnecessary extension of traditional trademark law".<sup>145</sup> Those in favour of dilution protection rely heavily for the basis of their arguments on the expanded functions

<sup>140</sup> See Vuk (1998) 896.

<sup>141</sup> *Deere & Co v. MTD Prods., Inc.*, 41 F.3d 39 at 44, U.S.P.Q.2d 1936 (2<sup>nd</sup> Cir. 1994).

<sup>142</sup> See Chapter 4.3.3.1 "Second Circuit Cases" *infra* for a more detailed discussion of this case.

<sup>143</sup> Port (2000) 879 is the only commentator that refers to alteration dilution. He mentions the *Deere* case as example.

<sup>144</sup> See Lee (2002) 697-700.

<sup>145</sup> Welkowitz (2000) 67 fn 15.



of trade marks. Other arguments advanced by them are that dilution damages trade marks and that the policies underlying trade-mark law call for protection against dilution. For one commentator the only real issue is however whether one perceives trade marks as property or not. These arguments are now discussed in more detail.

### 3.5.1 ARGUMENTS AGAINST OFFERING TRADE MARKS DILUTION PROTECTION

#### 3.5.1.1 THE FEAR OF MONOPOLY

Critics of dilution are concerned that protection against dilution will afford the trade-mark proprietor a monopoly in the language comprising the trade mark.<sup>146</sup> They believe that trade-mark proprietors will be getting exclusive use of their trade marks and that this will prevent others from entering the marketplace. Communication of useful information by other sellers in the marketplace can also be inhibited.<sup>147</sup> As a result effective competition will be curtailed. This fear of monopolisation was one of the most important influences of the depression era. Pattishall noted that a “considerable reticence toward granting anyone anything that remotely resembles a monopoly” was established in trade mark and related fields of law.<sup>148</sup> Courts are also reluctant to stretch the dilution doctrine too far through fear of monopolisation. This led to limitations imposed by courts, such as requiring actual dilution in order to succeed with a dilution claim.<sup>149</sup>

Also in South Africa there is fear that provisions against dilution will inhibit the free market economy.<sup>150</sup> Wheeldon argues that a free market economy depends on freedom of competition and is hostile to monopolies. Monopolies stifle competition and

<sup>146</sup> Middleton (1952) 175; Port (1995) 552, 556; Carty H “Do Marks with a Reputation Merit Special Protection?” (1997) 12 *European Intellectual Property Review* 684 at 688. See also Schechter (1927) 833; Vuk (1998) 921; McCabe (2000) 1833 and Wheeldon (lecture notes) 14-15.

<sup>147</sup> Denicola (1996) 80.

<sup>148</sup> Pattishall (1963) 606. Pattishall is one of the proponents of dilution. His views are seriously criticised by Port (1995) 552-553.

<sup>149</sup> *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Development* 449, 1999 U.S. App. LEXIS 4179, 50 U.S.P.Q.2d 1065 (4<sup>th</sup> Cir. 1999). See Chapter 4.10.4 “Likelihood of Dilution vs Actual Dilution” *infra*.

<sup>150</sup> See Wheeldon (lecture notes) 1, 14-15.



competition is for the benefit of both the consumer and the economy as a whole. But the monopoly acquired by a trade-mark proprietor in terms of the registration of his mark is traditionally limited in several ways. For example, registration can only be obtained for the goods in relation to which he traded. It must furthermore be remembered that it is not the mark *per se* that is protected, but the advertising value or selling power of the trade mark.<sup>151</sup> This advertising value or selling power is normally the result of an extensive advertising effort.

### 3.5.1.2 FUNCTION HAS NOT EXPANDED

Many critics of dilution also argue that the sole function of trade marks is still that of designating the source of origin of the goods.<sup>152</sup> This function is not adversely affected by dilution and is adequately protected by the confusion doctrine. Therefore these critics contend that dilution protection is not necessary.<sup>153</sup> The English Chancery Division in the *Wagamama* decision also rejected the notion that trade marks now serve as advertising commodities.<sup>154</sup>

### 3.5.1.3 NO REAL INJURY

The third argument of critics of the dilution theory is that dilution does not address a real injury, as no mark has ever actually, quantitatively been established to have been diluted.<sup>155</sup> They also believe that dilution does not actually damage a trade mark.<sup>156</sup> If

<sup>151</sup> Rutherford BR "Misappropriation of the Advertising Value of Trade Marks, Trade Names and Service Marks" (1990) 2 *SA Merc LJ* 152. See also Chapter 2.4 "Advertising Function" *supra*.

<sup>152</sup> See Michaels A "Confusion in and about Section 5(3) and 10(3) of the Trade Marks Act 1994" (2000) *European Intellectual Property Review* 335 at 336 who states that "the essence of trade mark protection is to protect the function of the trade mark as an indication of trade origin". At 339 she refers again to the "central function of a trade mark, namely to indicate or guarantee origin".

<sup>153</sup> See the discussion by Vuk (1998) 921.

<sup>154</sup> *Wagamama Ltd v. City Centre Restaurants plc* [1995] F.S.R. 713; [1996] E.T.M.R. 23. For a discussion of the case see Chapter 5.7.2.3 "Cases on Section 10(2)" *infra*.

<sup>155</sup> See Port (1995) 538 who contends that the saying "a remedy without a wrong" is applicable to dilution legislation. Vuk (1998) 921 also mentions that there are scholars who think that dilution does not address a real injury.

<sup>156</sup> Moskin JE "Dilution or Delusion: The Rational Limits of Trademark Protection" (1993) 83 *The Trademark Reporter* 122 at 130-133; Welkowitz DS "Re-examining Trade Mark Dilution" (1991) 44 *Vanderbilt Law Review* 531 at 533.



there is damage, they believe that it is only momentary and therefore dilution protection is still inappropriate.<sup>157</sup> They also criticise the metaphors used to describe how dilution damages a trade mark and stress the lack of empirical proof and support for actual dilution.<sup>158</sup> Port, for example, states that “no mark has ever actually and quantitatively been established to have been diluted”.<sup>159</sup>

### 3.5.1.4 TRADE-MARK POLICIES<sup>160</sup>

The main policies generally mentioned as underlying the protection of trade marks are the protection of the goodwill of the trade-mark proprietor, the protection of the corresponding right of consumers to be free from confusion and deception and the ensuring of free market access for third party competitors.<sup>161</sup> The principle of dilution, however, stands in sharp contrast with this as it protects only the private interest of the proprietor of a distinctive and famous trade mark and there seems to be no identifiable benefit to the public.<sup>162</sup> Carty, for example, notes that to protect the value of the mark in itself “writes out the public interest as part of the equation and could arguably work against the public interest”.<sup>163</sup> Garcia also recognises this phenomenon, but her criticism is more muted. She sees dilution protection as deriving “less from a desire to protect consumer interests than an effort to protect the selling power of the owner’s mark”.<sup>164</sup> This was also echoed in the case of *Ameritech v. American Information Technologies*,<sup>165</sup> when interpreting the Ohio common-law dilution doctrine. The court explained that “[r]ather than focusing on consumer confusion, the dilution theory seeks to protect the senior user’s interests in the trademark”.

<sup>157</sup> Moskin (1993) 130-133; Welkowitz (1991) 531, 538-43.

<sup>158</sup> See Vuk (1998) 922.

<sup>159</sup> Port (1995) 538.

<sup>160</sup> Policies underlying trade-mark law are also used by people arguing in favour of dilution protection. See Chapter 3.5.2.3 “Policies Underlying Trade-mark Law” *infra*.

<sup>161</sup> Port (2000) 896-897.

<sup>162</sup> Gilson (1999) § 5.12[1][a]; Mostert (1986 *IIC*) 90; Port (2000) 897, 910.

<sup>163</sup> Carty (1997) 688.

<sup>164</sup> Garcia (1995) 490.

<sup>165</sup> *Ameritech, Inc. v. American Information Technologies Corp., Inc.*, 811 F.2d 960 at 965, 1987 U.S. App. LEXIS 2243, 1 U.S.P.Q.2d (BNA) 1861 (6<sup>th</sup> Cir. 1987).



Bringing in another angle, Handler comments that the dilution theory strongly enhances the rights of plaintiffs, but fails to consider the rights of defendants. This approach, he says, runs contrary to the historical purposes of trade-mark law, which weight the rights of both parties.<sup>166</sup>

### 3.5.1.5 ADEQUATE PROTECTION

In South Africa some opponents of the dilution provisions argued that the 1963 Act provided adequate protection under section 44(1)(b) and section 53, which made defensive registrations possible. The other alternative they believe in is the common-law remedy of passing off.<sup>167</sup>

### 3.5.1.6 CREATING A COPYRIGHT IN A TRADE MARK

Middelton argues that in granting statutory rights to a trade-mark holder to prevent a third party's dilution of the mark essentially creates a copyright in the trade mark.<sup>168</sup> Port goes even further and claims that dilution also grants a copyright in the idea of the trade mark in the minds of consumers.<sup>169</sup> However, copyright law does not protect ideas, only the expression of the idea in tangible form. This is known as the idea/expression dichotomy, which is therefore violated by the dilution theory.

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<sup>166</sup> Handler MW "Are the state anti-dilution laws compatible with the national protection of trademarks?" (1985) 75 *The Trademark Reporter* 269 at 282.

<sup>167</sup> Compare Webster & Page (1997) par 12.24.

<sup>168</sup> Middleton (1952) 178-179; Middleton (1957) 1032. Middleton (1957) 1031 further argues that dilution is not a trade-mark tort, because in the contemplation of trade-mark law the trade is more important than the mark, while the dilutionists "exalt the mark above the trade".

<sup>169</sup> Port (1995) 573.



### 3.5.2 ARGUMENTS IN FAVOUR OF OFFERING TRADE MARKS DILUTION PROTECTION

#### 3.5.2.1 EXPANDED FUNCTIONS OF TRADE MARKS

The first argument in support of the protection of trade marks against dilution is that the socio-economic functions of trade marks have expanded and that trade marks now *inter alia* serve as advertising agents.<sup>170</sup> One of the first persons noting this expansion of functions was Schechter. He was of the opinion that trade marks are more than just indicators of source. He argued that the primary function of a trade mark is to serve as a marketing or advertising tool.<sup>171</sup> Some people also refer to this function as a trade mark's commercial magnetism<sup>172</sup> or the trade mark's selling power<sup>173</sup> or even the promotional aura of the mark.<sup>174</sup> The trade mark can only perform this function properly if it is unique to a single proprietor.<sup>175</sup> The use of a trade mark as an advertising agent constantly promotes the trade-mark name amongst the public. This drawing power of the trade mark stimulates consumers to purchase certain goods, thus building up goodwill.<sup>176</sup> This goodwill can have great value for the proprietor of a mark. When one allows the use of the same or a similar trade mark on different products, it will result in a loss or diminution of this goodwill. The reason is that people will no longer associate the trade mark with a single product. On the other hand, protection of goodwill will encourage investment in this valuable asset of the trade-mark proprietor.<sup>177</sup> This expanded advertising function is also recognised under Benelux trade-mark law.<sup>178</sup> Schechter moreover contends that a mental association is formed between the trade mark and the

<sup>170</sup> Vuk (1998) 917, 924-925. See Chapter 2 "The Socio-Economic Functions of Trade Marks" *supra* for a detailed discussion on the functions of trade marks and for additional references.

<sup>171</sup> Schechter (1927) 818-819.

<sup>172</sup> Supreme Court Justice Frankfurter in *Mishawaka Rubber & Woolen Manufacturing Co. v. S.S. Kresge Co.*, 316 U.S. 203 at 205, 62 S. Ct. 1022, 86 L. Ed. 1381, 53 U.S.P.Q. 323 (1942), thereby recognising the expanded advertising function of a trade mark. See also Mostert (1986 *IIC*) 91.

<sup>173</sup> Kamperman Sanders A & Maniatis SM "A Consumer Trade Mark: Protection Based on Origin and Quality" (1993) 11 *European Intellectual Property Review* 406 at 411.

<sup>174</sup> Carty (1997) 687.

<sup>175</sup> Kamperman Sanders & Maniatis (1993) 411.

<sup>176</sup> Vuk (1998) 918.

<sup>177</sup> Denicola (1996) 80.

<sup>178</sup> See the discussion in Chapter 5.7 "Benelux Law" *infra*.



product by consumers. The confusion doctrine, traditionally used as the rationale for trade-mark protection, does not protect the expanded advertising function of a trade mark or this psychological association referred to above.<sup>179</sup>

### 3.5.2.2 DILUTION DAMAGES TRADE MARKS

The second argument is that dilution damages a trade mark by diminishing the trade mark's ability to identify the source of the goods bearing the trade mark. Dilution primarily damages the mental association that consumers have with respect to a trade mark and that could lead to a decrease in sales. Swann and Davis<sup>180</sup> aver that the damage suffered from confusion caused by an infringing mark is usually restricted to one immediate sale, while the damage caused by a negative association distorts the image that purchasers have towards the trade mark and this can result in a permanent loss of sales. Damage to a trade mark due to dilution is thus far more severe than damage to a trade mark due to confusion.<sup>181</sup> Vuk quotes the example of the Coca-Cola Company. They would suffer less economic damage from an occasional consumer who mistakenly buys a can of Pepsi instead of Coke, than having the consumer associate Coke with cocaine. In the case of *Coca-Cola Co. v. Gemini Rising, Inc.*<sup>182</sup> a poster manufacturer started to sell posters with the phrase "Enjoy Cocaine" on it, written in the same colours and stylised script as the trade mark "Enjoy Coca-Cola". The Court recognised that the negative association in the mind of consumers would damage the selling power of the Coca-Cola trade mark. Other United States courts also accepted that dilution damages a trade

<sup>179</sup> Schechter (1927) 822.

<sup>180</sup> Swann JB & Davis TH "Dilution, an Idea Whose Time has Gone; Brand Equity as Protectable Property, the New/Old Paradigm" (1994) 84 *The Trademark Reporter* 267 at 274.

<sup>181</sup> Vuk (1998) 919.

<sup>182</sup> *Coca-Cola Co. v. Gemini Rising, Inc.* 346 F.Supp. 1183 (E.D.N.Y. 1972). See Chapter 3.4.2 "Tarnishment" *supra*.



mark.<sup>183</sup> This damage is moreover recognised by legal scholars and legislators.<sup>184</sup>

### 3.5.2.3 POLICIES UNDERLYING TRADE-MARK LAW<sup>185</sup>

In trade-mark law there are also underlying policies that support the protection of trade marks from dilution.<sup>186</sup> One of the central policies for protecting trade marks is the protection of the goodwill which trade-mark proprietors create through the use of the trade mark. This goodwill can also be damaged by uses of the trade mark that do not cause confusion. Examples of this type of damaging use are parodies involving a trade mark<sup>187</sup> and production of non-similar products of bad quality.<sup>188</sup> Dilution protection also prevents free-riding by people who attempt to gain an advantage from another's trade mark without paying anything for this advantage.<sup>189</sup> Rutherford, from a South African perspective, also describes the reason and basis for protection against dilution in terms of this policy:<sup>190</sup>

“The preservation of the reputation and unique identity of the trade mark and the selling power which it evokes is of vital importance to the trade-mark proprietor to protect and retain his goodwill. Other traders will frequently wish to exploit the selling power of an established trade mark for the purpose of promoting their own products. The greater the advertising value of the

<sup>183</sup> *American Express Co. v. Vibra Approved Labs. Corp.*, 10 U.S.P.Q. 2d (BNA) 2006 (S.D.N.Y. 1989) at 2013 found that the reputation of American Express might be tarnished by a novelty credit card, similar to its credit card, with a condom attached to it. *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Celozzi-Ettelson Chevrolet*, 855 F.2d 480, 482-485 (7<sup>th</sup> Cir. 1988) held that an advertisement of a used car dealer using the slogan “The Greatest Car Show on Earth” tarnished the slogan “The Greatest Show on Earth” the trade mark of the well-known Ringling Brothers’ circus.

<sup>184</sup> See for example Horwitz & Prager (1996) no page numbers provided; the Uniform Benelux Trade Mark Act art. 13A(2) in Chapter 5.7.1.5 “Section 13A(2) of the Uniformed Benelux Trade Mark Act” *infra* and the Lanham Act in § 43(c) in Chapter 4.7 “The Federal Trademark Dilution Act of 1995” *infra*.

<sup>185</sup> The protection of goodwill, the prevention of confusion of the public and the protection of competition are mentioned as policies underlying trade mark law.

<sup>186</sup> Vuk (1998) 920; Mostert (1986 *IIC*) 93 fn 60.

<sup>187</sup> See *Baywatch Productions Co. Inc. v. Home Video Channel Ltd* [1997] F.S.R. 22 discussed in Chapter 5.7.2.4 “Cases on Section 10(3)” *infra* and *Deere & Co. v. MTD Prod., Inc.*, 41 F.3d 39, U.S.P.Q. 2d 1936 (2<sup>nd</sup> Cir. 1994) discussed in Chapter 4.3.3.1 “Second Circuit Cases” *infra*.

<sup>188</sup> Vuk (1998) 923.

<sup>189</sup> Vuk (1998) 881.

<sup>190</sup> Rutherford BR “Misappropriation of the Advertising Value of Trade Marks, Trade Names and Service Marks” (1990) 2 *SA Merc LJ* 151 at 152. See also Ginsburg in Visser C *The New Law of Trade Marks and Designs* (1995) Juta & Co Ltd Kenwyn 36.



trade mark, the greater the risk of misappropriation. Any unauthorized use of the trade mark by other traders will lead to the gradual consumer disassociation of the trade mark from the proprietor's product. The more the trade mark is used in relation to the products of others, the less likely it is to focus attention on the proprietor's product. The reputation and unique identity of the trade mark will become blurred. The selling power becomes eroded and the trade mark becomes diluted."

The policies of protecting interbrand competition and preventing monopolies also support the provision of dilution protection for trade marks.<sup>191</sup> Such protection does not frustrate interbrand competition or give a monopoly to the trade-mark proprietor.<sup>192</sup> The advertising function, protected by a dilution claim, is a particularly important instrument which promotes competition and specifically quality competition.<sup>193</sup> The trade-mark proprietor only gets protection for a valuable asset that has been created by the proprietor's ingenuity and the merit of the owned goods. This limited "monopoly" cannot affect legitimate competition.<sup>194</sup> A competitor does not require the use of another competitor's trade mark to compete effectively.<sup>195</sup> There are also other aspects of trade-mark law, such as requirements for registration and the concept of genericism that make it impossible for people to register words and phrases that are necessary for the promotion of effective competition, as trade marks.<sup>196</sup>

Another important policy in trade-mark law is the protection of consumers from confusion. It is often said by scholars arguing against dilution that protection against dilution is only for the benefit of the private interest of the trade-mark proprietor.<sup>197</sup> This was put into perspective by the Court of Appeal (Seventh Circuit) in *Hyatt Corporation v. Hyatt Legal Services*.<sup>198</sup> The court granted an injunction which prohibited Hyatt Legal

<sup>191</sup> Vuk (1998) 923-924.

<sup>192</sup> Rose SA "Will Atlas shrug? Dilution Protection for 'Famous' Trademarks: Anti-Competitive 'Monopoly' or Earned 'Property' Right? (1995) 47 *Florida Law Review* 653 at 707-708.

<sup>193</sup> Mostert (1986 *IIC*) 93 fn 60.

<sup>194</sup> Schechter (1927) 833.

<sup>195</sup> Think for example of the trade marks COKE and PEPSI.

<sup>196</sup> See Vuk (1998) 924.

<sup>197</sup> See, for example, Port (1995) 526-527 who says that giving protection against dilution would "shift the balance of protection of interests strongly in favor of the trademark holder at the expense of the consumer and uninvolved third parties".

<sup>198</sup> *Hyatt Corporation v. Hyatt Legal Services* 736 F.2d 1153 at 1159, 222 U.S.P.Q.2d 669 (7<sup>th</sup> Cir. 1984).



Services from using the registered service mark, HYATT, of the Hyatt hotel group in order to prevent further dilution of the mark. The court said that this injunction would not operate against the public interest. It held moreover that the public has “an interest in the protection of trademarks and trade names”.

#### **3.5.2.4 TRADE MARKS THAT CANNOT BE THE SUBJECT OF CONFUSION**

Another reason mentioned by Vuk in favour of protection against dilution is that certain trade marks are able to become so powerful and well-known that the possibility of confusion is minimal in the extreme.<sup>199</sup> The examples used are McDonalds and Coca-Cola. Although people will not think that a blue car with the name COKE on it comes from the Coca-Cola Company, it will cause a subconscious association between the car and the Coca-Cola Company. If the car is of inferior quality, this will indirectly lead to the loss of some goodwill for the Coca-Cola Company.

#### **3.5.3 ROLE OF THE STATUS OF THE TRADE-MARK PROPRIETOR'S RIGHT IN THE DILUTION DEBATE**

The question whether trade marks give property rights<sup>200</sup> to their proprietors has been one of the most keenly debated questions in the law of trade marks.<sup>201</sup> The reason for its importance is that the answer to this question will arguably determine how far and how wide the protection against infringement should stretch. The answer is especially relevant in the context of non-competing goods, as an action based on the common law of unfair competition is impossible, due to the fact that there is no competition.<sup>202</sup> Should statutory protection cover these cases?

Perhaps one should first identify what the term “property” really contemplates. Carter, writing from an American perspective, sees property as “only a legal conclusion”. He

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<sup>199</sup> Vuk (1998) 925.

<sup>200</sup> As in the case of tangible goods.

<sup>201</sup> See Carter SL “The Trouble with Trademark” (1990) 99 *Yale Law Journal* 759; Carter (1993) 715.

<sup>202</sup> See Callmann (1947) 175-194. His views are discussed *infra*.



then continues by saying that “[i]n theory, the term does not refer to any object or to any necessary set of legal rights that always inheres in a property relationship”, but rather “refers to a bundle of rights – rights that define, singly or collectively, the relationship of an individual to a resource”.<sup>203</sup> According to Carter, there are actually two different ways in which to look at property. The legal theorist will, by using the term “property”, mean “the relevant set of legal relations”. To the layperson “property” refers to a thing which implies one owner.<sup>204</sup> There is, however, according to Carter, “no ordinary conversation” about intellectual property, which causes many problems.<sup>205</sup> Port defines the term “property” as used by courts and laypersons as “a tangible object from which the owner has rights to exclude others”.<sup>206</sup> Intangibles were initially not considered property, but became recognised as property because they demonstrate some of the classical incidents of ownership. This is according to Port true of copyrights and of patents, whose owners enjoy the “bundle of rights” notion of property, but not of trade marks. Trade-mark holders, according to Port, possess only the right to exclude others from using the mark in the same sphere of interest.<sup>207</sup> Another perspective comes from Landes and Posner who describe a property right as “a legally enforceable power to exclude others from using a resource, without need to contract with them”.<sup>208</sup>

The way in which Schechter proposed the dilution theory creates a property right “in gross”,<sup>209</sup> in unique or coined marks. This is because the use of all marks in a way, which reduces the uniqueness of these marks, even in the absence of any other type of harm, would be prohibited.<sup>210</sup> Port sees this concept of dilution as “revolutionary”. This is in the light of the fact that the common law of trade marks only grants protection to the

<sup>203</sup> Carter (1993) 716.

<sup>204</sup> Carter (1993) 716. The term “conversational habit” is also used to refer to this “ordinary way” in which most people see property: If someone is the owner, he has a nearly absolute right to exclude other.

<sup>205</sup> See Carter (1993) 717-718.

<sup>206</sup> Port (1993 *Indiana LR*) 552.

<sup>207</sup> Port (1993 *Indiana LR*) 553, 561-562.

<sup>208</sup> Landes & Posner (1987) 266.

<sup>209</sup> This means that a property right vests in the proprietor of the mark solely on the basis that the mark is unique or coined and irrespective of whether or not the mark was used in fact.

<sup>210</sup> Seitz (1999) 115; Klieger (1997) 811, 817.



extent that the marks are used on goods and services.<sup>211</sup> It is thus against the common law of the United States and England to speak of trade marks as property.<sup>212</sup> Trade-mark law developed from unfair competition, which in turn developed from the tort of fraud and deceit.<sup>213</sup> Its general concern is to protect consumers from confusion as to source.<sup>214</sup> Therefore, trade-mark infringement is, according to Port, not a trespass on the trade mark itself.<sup>215</sup> Trade-mark rights can, for this reason, not be a right “in gross”, as claimed by Schechter.<sup>216</sup> The rights to a trade mark are appurtenant to the goodwill or product on which they are used. This emphasizes the fact that trade-mark holders do not possess a right of transmissibility or alienation as owners of “normal” property do.<sup>217</sup>

Another way in which Port looks at the question of ownership of trade marks, is to analyse it against the definition of property.<sup>218</sup> Exclusive control is one of the primary incidents of ownership. Trade-mark holders, however, do not have the exclusive right to control their mark. Trade marks are, for example, subject to “fair use” by third parties. Trade-mark holders’ rights to use their marks are also restricted. They are not allowed to use their mark on a different product for which another has already obtained prior trade-mark rights through use or registration.<sup>219</sup> His conclusion is that none of the traditional property right concepts support the creation of property rights in a trade mark itself.<sup>220</sup> However, according to opponents of dilution, this is precisely what is achieved through the dilution rationale.<sup>221</sup>

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<sup>211</sup> Port (1995) 529; Port (1993 *Indiana LR*) 554. This position was also indorsed by the Supreme Court in 1879 in the *Trade-Mark Cases v. Steffens*, 100 U.S. 82 at 94 (1879).

<sup>212</sup> Port (1995) 553; Port (1993 *Indiana LR*) 520, 552, 554; Port (2000) 829.

<sup>213</sup> McCabe (2000) 1835.

<sup>214</sup> Port (1995) 563; Klieger (1997) 865; McCabe (2000) 1835.

<sup>215</sup> Port (1995) 554-555.

<sup>216</sup> Port (1993 *Indiana LR*) 559.

<sup>217</sup> Port (1993 *Indiana LR*) 558, 560.

<sup>218</sup> Port (1993 *Indiana LR*) 554, 555.

<sup>219</sup> Port (1993 *Indiana LR*) 555.

<sup>220</sup> Port (1993 *Indiana LR*) 561.

<sup>221</sup> Klieger (1997) 816-7 says that dilution statutes are “nothing more than a thinly veiled manifestation of trademark rights in gross”.



Port claims that the expansion of American trade-mark law<sup>222</sup> has actually resulted in a system that “emulates” trade-mark jurisprudence of civil-law countries, such as Japan and France, where a trade mark itself is considered subject to property ownership.<sup>223</sup> In these jurisdictions rights subsist upon registration and not use. Assignments in gross, where the trade mark is transferred without the appurtenant goodwill, are allowed. Naked licensing<sup>224</sup> and the divisibility of trade mark rights are also allowed.<sup>225</sup> He, however, does not argue that this change is “normatively wrong”, but he states that this change is “inconsistent with American common law and, perhaps, even the American Constitution”. He suggests that such a change should be done “intentionally” and not “accidentally”.<sup>226</sup>

Klieger based his opposition to the dilution rationale on the differences between trade-mark law on the one hand and patent and copyright law on the other. In the case of patent and copyright law near absolute rights are given for a limited term of years to provide an incentive for invention and the creation of more works. Trade-mark law balances free competition with fair competition and consumer protection should thus be the only rational basis for protection of trade marks. Therefore, he argues that the dilution doctrine in creating a property right in a trade mark, overlooks these and other fundamental differences between patent and copyright law compared to trade-mark law. If the balance between free and fair competition is disturbed, market efficiency and consumer welfare will be undermined.<sup>227</sup>

McCabe point to the fact that propertising trade marks implies significant costs to society. He specifically mentions the cost from lost opportunities and higher prices.<sup>228</sup>

<sup>222</sup> Port identifies three major developments in American law that caused this expansion: the intent to use system, the Federal Dilution Act and the Anti-cybersquatting Consumer Protection Act. See Chapter 4 “Law of the United States of America” *infra*.

<sup>223</sup> Port (2000) 829, 911.

<sup>224</sup> This is the process where the use of a mark is licensed, without controlling the quality of the licensees’ goods or services.

<sup>225</sup> See his discussion on the civil law of trade marks Port (2000) 831-834.

<sup>226</sup> Port (2000) 834, 911-912.

<sup>227</sup> Klieger (1997) 864-866. See also Middleton (1952) 179.

<sup>228</sup> McCabe (2000) 1833.



Middleton, writing in the 1950s, was another opponent of the dilution theory. He says that trade-mark rights have nothing to do with property in ideas, since a trade mark is “only a symbol that cannot exist apart from the trade which it symbolizes”.<sup>229</sup> A dilution claim amounts to a claim of property in a trade mark apart from the business or trade in connection with which it is employed.

Callmann, however, like Schechter, believes that the trade-mark proprietor<sup>230</sup> has a property right in the trade mark and thus that relief can be granted against any injury which would preclude the trade-mark proprietor from fully utilising that trade mark.<sup>231</sup> In his motivation for a dilution rationale, he stressed that there can be non-competitive violations of a trade mark, which, due to the absence of competition, cannot be covered by the unfair competition doctrine.<sup>232</sup> As there is no legal relationship between non-competitors, the only basis of relief can be an exclusive right, such as property.<sup>233</sup> Other commentators, such as Swann, are also convinced that trade marks should be protected as property. Swann, however, expressly limits this protection to famous brands.<sup>234</sup>

This is also the conclusion reached by Martino,<sup>235</sup> who demonstrates that from an economic perspective, property rights confer valuable economic benefits and that the absence of property rights would lead to the inefficient use of scarce resources. Economic efficiency therefore demands that scarce resources should be the subject of ownership and that their owners should be able to exclude others. He then indicates that descriptive marks are not scarce resources, only distinctive marks.<sup>236</sup> Property rights

<sup>229</sup> Middleton (1952) 179.

<sup>230</sup> They use the word “trade-mark owner”. For examples see Schechter (1927) 831, 833; Callmann (1947) 183. Port (1995) 529 fn 29 however refrains from using the concept “trade-mark owner”, because he believes that one cannot have property rights in trade marks and therefore there is no trade mark to own. He rather uses the term “trade-mark holder”. As explained in Chapter 1 fn 13 *infra* the term “trade-mark proprietor” is used in this dissertation.

<sup>231</sup> Callmann (1947) 183.

<sup>232</sup> Callmann (1947) 175, 179, 183, 193.

<sup>233</sup> Callmann (1947) 184, 193.

<sup>234</sup> Swann JB “An Intuitive Approach to Dilution” (1999) 89 *The Trademark Reporter* 907. He says that a famous brand is usually more valuable than the physical assets used to produce the goods on which it is used.

<sup>235</sup> Martino (1996) 78-85.

<sup>236</sup> It is irrelevant whether the marks are inherently distinctive or have become distinctive through secondary meaning.



should therefore only be recognised in some marks. The dilution theory is therefore not at the expense of the public. It also acknowledges the public's interest in the trade-mark system. Martino indicates, for example, that it would enjoin denominative trade usages which cause the senior mark to deteriorate. This reduces consumer search costs by enabling consumers to select desired items without the need to test purchases. He also claims that "the exclusive appropriation of coined or arbitrary marks has no negative implications for the imperative of continued free competition". Descriptive and suggestive marks should continue to be protected through the traditional likelihood of confusion test.<sup>237</sup>

Callmann also referred to case law as supporting his viewpoint. One of the first cases that proposed a property right in a trade mark was the 1838 case of *Millington v. Fox*.<sup>238</sup> Injunctive relief was granted against a defendant without any fraudulent intent. There was an old English rule in equity that an injunction would not be granted unless a property right was at stake.<sup>239</sup> It was on this rule that Callmann relied. Port argues that this was an erroneous conclusion.

The notion of protecting property alone was also adhered to by Lord Westbury LC in three cases decided in 1863.<sup>240</sup> A number of other cases cited by Callmann also held that property in a trade mark accrues without the aid of a statute. Between 1890 and 1926, there was, however, a shift in approach.<sup>241</sup> Then in the *Hanover Star Milling* case and *Beech-Nut* case the courts came closer to the property concept again by proposing a

<sup>237</sup> They could become eligible for dilution relief after several years of exclusive use and following advertisement of their intended promotion. See Martino (1996) 85.

<sup>238</sup> *Millington v. Fox* 3 Myl. & C. 338 (1938), cited by Callmann (1947) 184.

<sup>239</sup> Port (1995) 554.

<sup>240</sup> See Callmann (1947) 184 for citations. He also cites subsequent cases that support this property notion, but indicates (at 185) that there were also decisions to the contrary.

<sup>241</sup> In the 1925 case of *American Steel Foundries v. Robertson*, 269 U.S. 372 at 380 the Supreme Court, for example, stated that "[t]here is no property in a trade mark apart from the business or trade in connection with which it is employed".



qualified property concept.<sup>242</sup> In the *Beech-Nut* case<sup>243</sup> the existence of a property right in a trade mark independent of the goodwill associated with the mark was implicitly recognised: "The fact that the good-will once associated with it has vanished does not end at once the preferential right of the proprietor to try it again upon goods of the same class with improvements that renew the proprietor's hopes." Thus, the trade mark has a value independent of the goodwill associated with the goods on which it was used. Yet, Callmann in 1947 declared that "it is still problematic whether the courts will recognize a property right in a trade-mark".<sup>244</sup> He sees the conclusion that a trade mark has no independent value as erroneous, unsatisfactory and unfortunate.<sup>245</sup>

Callmann states that the trade-mark proprietor generally has a right to be protected with respect to the functions of a trade mark, namely indication of origin, guarantee of quality and advertisement. He proceeds to say that this is the protection the law normally accords to "property".<sup>246</sup> In addition, a trade mark has value other than as a mere symbol of goodwill. Callmann also stresses the fact that the property right has never been an absolute right. There are certain limitations regarding transfer, territorial scope or

<sup>242</sup> *Hanover Star Milling Co v. Metcalf* 240 U.S. 403 at 414 (1916); *Beech-Nut Packing Co. v. P.Lorillard Co.*, 7 F.2d 967 (3<sup>rd</sup> Cir. 1925), *certiorari* granted, 269 U.S. 551 (1926), 273 U.S. 629 at 632 (1927). These courts see a trade mark as only a symbol of the goodwill of the business of the trade-mark owner. A trade mark is therefore not property in the ordinary sense of the word but only indicates the origin of the goods.

<sup>243</sup> *Beech-Nut Packing Co. v. P.Lorillard Co.*, 7 F.2d 967 (3<sup>rd</sup> Cir. 1925), *certiorari* granted, 269 U.S. 551 (1926), 273 U.S. 629 at 632 (1927). The issue was whether BEECH-NUT on chewing tobacco and cigarettes, infringed the BEECH-NUT mark for chewing gum, bacon and other food products. This was also echoed in other cases. See Callmann (1947) 191.

<sup>244</sup> See Callmann (1947) 186, 190. He sees the crucial point of the controversy as "not so much the question whether a trade-mark may be protected as property, but whether the trade-mark may be an independent subject of a property right". He demonstrates his viewpoint with a citation from the case *Hanover Star Milling Co. v. Metcalf* 240 U.S. 403 at 414 (1916): "In the English courts it often has been said that there is no property whatever in a trade-mark, as such. But since in the same cases the courts recognize the right of the party to the exclusive use of marks adopted to indicate goods of his manufacture ... it is plain that in denying the right of property in a trade-mark it was intended only to deny such property right except as appurtenant to an established business or trade in connection with which the mark is used".

<sup>245</sup> Callmann (1947) 188.

<sup>246</sup> Callmann (1947) 188.



business expansion, but he sees that as not affecting the nature of the right, only the scope of protection.<sup>247</sup>

However, in the United States, as stated above, it seems to be fundamentally wrong to speak of a property right in a trade mark as an assignment of the mark in gross, with the result that the assignment of the mark without the specific goodwill associated with the mark, is invalid.<sup>248</sup> The reasoning behind this assertion is that rights in a trade mark flow from its use and not from its existence. In the case of property, the mere fact that the creator has brought the *res* into existence is the reason for its protection. This is the common-law position, also indorsed by the Supreme Court.<sup>249</sup> Even though an application for trade-mark registration may since 1988 be filed before the mark is actually used in commerce, the mark cannot be registered until it is in fact used.<sup>250</sup>

Port argues very strongly against the existence of the dilution concept. He sees it as a gross expansion of trade-mark rights. There is according to him, no satisfactory theoretical justification for such an expansion.<sup>251</sup>

Carter states that in essence, marks are only protected to the extent that they distinguish the owner's goods.<sup>252</sup> Carter then proceeds to argue on the basis that trade marks can be property and reasons that "perhaps it is not such a bad idea after all".<sup>253</sup> This would lead

<sup>247</sup> Callmann (1947) 192-193. This is true not only for trade-mark property, but for other property as well, which is also frequently subject to general limitations or limitations flowing from the nature of the property, for example limitations on the transfer of certain land.

<sup>248</sup> See Port (1993 *Chicago-Kent LR*) 600; Port (1995) 529. He cites the case of *American Steel Foundries v. Robertson*, 269 U.S. 372, 380 (1925) as authority. He also refers to Japan, where in contrast to the United States, private property rights in trade marks are recognised. Assignments in gross, totally divorced from the goodwill, are there also valid. See also Carter (1993) 720; Landes & Posner (1987) 285-287.

<sup>249</sup> See Port (1995) 529; Port (1993 *Indiana LR*) 554.

<sup>250</sup> See the Lanham Act 15 U.S.C. § 1051(b), which is the so-called intent to use provision, provided for in the 1988 revisions of the Lanham Act. See also Chapter 4.2 "Federal Trade-mark Law since 1947" *infra*.

<sup>251</sup> Port (1995) 526, 527, 556; Port (2000) 874. The only justification acknowledged by Port is the outdated and discredited version of natural rights. This theory originated with the Romans and entailed that the first person to possess an object has a natural right to own that object, provided that it was not owned by someone else and was capable of ownership. The problem with trade marks, according to Port, is that the marks themselves are not subject to ownership. See Port (1995) 559-561.

<sup>252</sup> Carter (1993) 720.

<sup>253</sup> Carter (1993) 720-721.



to the situation where trade marks are protected not because they have been used to distinguish, but merely because someone has thought them up. In effect this means a property-based rather than an incentive-based trade-mark system. A new conversational habit in which intellectual property would be called property will be developed.<sup>254</sup> This trend is already evident in the law of copyright, where more emphasis is put on the property rights of the owner compared to the “rights” of the public.<sup>255</sup> Carter concludes his article by saying that the perception about whether something intangible is property may change in future.<sup>256</sup>

Pattishall has an alternative answer also from an American perspective:

“The anti-dilution concept may be implemented through either of two fundamentally different approaches: (1) the Schechterian-Callmann ‘property right’ philosophy, or (2) the ‘values resulting from use’ rationale. Experience has shown that the ‘property’ approach is not only repugnant to the judicial sensibilities because of potential for abuse and obnoxious monopoly, but also because it collides resoundingly with a fundamental tenet of Anglo-American trade identity law – that there is no property right as such in a mark. The ‘values resulting from use’ approach, however, is not only realistic in that it is directed to the actual ‘state of mind’ subject matter of the dilution concept, but also it is consistent with the fundamental philosophy of our established trade identity law.”<sup>257</sup>

Pattishall believes that the dilution concept has been “basically misconceived and wrongly advocated” as a property theory.<sup>258</sup> He rather sees the dilution concept as based upon a quasi-property right, at least in the mark’s distinctive quality.<sup>259</sup> He views this as a legal recognition of the concept of “commercial magnetism” generated by commercial endeavor, and already recognised for years in the commercial market place. Therefore

<sup>254</sup> Carter (1993) 721. See too his comments on the decision of *Two Pesos, Inc. v. Taco Cabana, Inc* 112 S. Ct. 2753 (1992). In this case, brought under § 43(a) of the Lanham Act, one party’s restaurant décor was protected merely because she had it first, without requiring secondary meaning or even registration.

<sup>255</sup> See Carter (1993) 722.

<sup>256</sup> Carter (1993) 723.

<sup>257</sup> Pattishall (1977) 624.

<sup>258</sup> Pattishall (1977) 621.

<sup>259</sup> Pattishall (1977) 618. He refers in this context to the oft-quoted paragraph in *Mishawaka Rubber & Woolen Manufacturing Co. v. S.S. Kresge Co.*, 316 U.S. 203 at 205, 62 S. Ct. 1022, 86 L. Ed. 1381, 53 U.S.P.Q. 323 (1942) by Mr. Justice Frankfurter. See Chapter 2.4 “Advertising Function” *supra* and fn 172 *supra* in this Chapter.



there is no “property right” in the mark itself, the only possible “property right” is the mark’s distinctiveness. Also McCabe refers to this quasi-property right in a trade mark. This implies limited rights<sup>260</sup> and protections and is contingent on protecting the public from confusion.<sup>261</sup>

In the recent case of *Ringling Brothers v. Utah*, the court interpreted the Federal Trademark Dilution Act.<sup>262</sup> The court saw the phrase “the lessening of the capacity of a famous mark, to identify and distinguish goods or services” in the statutory definition of dilution as a clear indication that it is the mark’s selling power and not its distinctiveness that must be protected. According to the court, if only the distinctiveness of the mark is protected, it will amount to a property right in gross in the trade mark. This was the model originally proposed by Schechter. The court did not think that Congress would have intended to create a property right unlimited in time, unless they made such intention clear. The Federal Act, according to the court, requires specific harm to the senior mark’s economic value and a causal connection between this harm and the use of the junior user. Thus the Act does not support the property right in gross interpretation. Swann and Davis however submit that a brand’s equity, that is the positive associations that comprise a brand, “can rise to the level of a property right”. This property right, they propose, is entitled to separate protection.<sup>263</sup>

In German law steps have also been taken in recent years to protect the reputation and commercial magnetism embodied in a trade mark as an independent intellectual property interest.<sup>264</sup> A cause of action known as “*Rufausbeutung*” can be used to protect the reputation of a well-known trade mark in respect of competing, as well as non-competing

<sup>260</sup> See McCabe (2000) 1836 for these limitations.

<sup>261</sup> McCabe (2000) 1835, 1836, 1837.

<sup>262</sup> *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Development* 935 F.Supp. 763, 1996 U.S. Dist. LEXIS 13304, 40 U.S.P.Q.2d (BNA) 1303 (E.D. Va. 1996); 955 F.Supp. 605, 1997 U.S. Dist. LEXIS 2116, 42 U.S.P.Q.2d (BNA) 1161 (E.D. Va. 1997); affd. 170 F.3d 449 at 459, 1999 U.S. App. LEXIS 4179, 50 U.S.P.Q.2d 1065 (4<sup>th</sup> Cir. 1999). See Chapter 4.10.4 “Likelihood of Dilution vs Actual Dilution” *infra* for a discussion of this case.

<sup>263</sup> Swann & Davis (1994) 282-299.

<sup>264</sup> Mostert (1986 *IIC*) 93-95.



goods. Examples can be found in the *Rolls Royce* case<sup>265</sup> and in the *Dimple* case.<sup>266</sup> These decisions came, according to Mostert,<sup>267</sup> very close to the “recognition and protection of the reputation and commercial magnetism of a trade mark as an independent interest”. He also notes that there is a growing trend to emphasise the “proprietary overtones of a trade mark”. This means that a trade mark is perceived as a “*bonum in se* protectible as a *ius in se*”, in other words an intellectual property right in and of itself.<sup>268</sup> He finds confirmation for his view in the language of the EC Harmonisation Directive.<sup>269</sup> Mostert argues strongly that the reputation and commercial magnetism embodied in a trade mark should be recognised and protected as independent intellectual property interests.

### 3.5.4 CONCLUSION

Many scholars have thus criticised the dilution theory as monopolistic, anti-competitive and inconsistent with the consumer protection rationale of trade-mark law. They also argue that the function of a trade mark has not been expanded and that dilution causes no real injury to a trade mark.<sup>270</sup> Most of this criticism is however addressed by proponents of the dilution doctrine in their arguments in favour of dilution protection.<sup>271</sup> It is quite generally accepted that the functions of trade marks have expanded and that trade marks now also have an advertising function, which serves to built up the goodwill of the trade mark. Dilution surely damages the mental association that consumers have with respect to a trade mark and this can result in permanent loss of sales. This situation cannot be remedied by the traditional remedies used in the case of confusion. Furthermore, the

<sup>265</sup> *Rolls-Royce*, 86 BGHZ 90, (1983), [1983] GRUR 247, 1984 IIC 240. See Mostert (1986 IIC) 94 for a brief discussion.

<sup>266</sup> *Dimple*, BGH, 29. 11. 1984, [1985] GRUR 550. See also Mostert (1986 IIC) 94.

<sup>267</sup> Mostert (1986 IIC) 94.

<sup>268</sup> Mostert (1996) 136.

<sup>269</sup> Phrases such as “taking an unfair advantage of the distinctiveness or repute” and “exploiting the reputation” of the commercial magnetism of a trade mark in the Directive reflects, according to Mostert (1996) 136, “the tenor of legal sentiment in characterising the proprietary rights embodied in a trademark”. See Chapter 5.5 “The European Union and the Trademark Directive” *infra* for a discussion of the Directive.

<sup>270</sup> Chapter 3.5.1 “Arguments Against Offering Trade Marks Dilution Protection” *supra*.

<sup>271</sup> Chapter 3.5.2 “Arguments in Favour of Offering Trade Marks Dilution Protection” *supra*.



advertising function, protected by a dilution claim, actually promotes competition and therefore is in the interest of society. Dilution protection is also not in conflict with the consumer protection rationale as the public has an interest in the protection of trade marks.<sup>272</sup>

Turning to the property debate,<sup>273</sup> there is also a split of authority. Commentators such as Schechter, Callmann, Swann and Martino propose directly or indirectly a property right in trade marks. Others like Port and Middleton are of the opinion that this is fundamentally wrong and inconsistent with American common law and even the American Constitution. A few commentators like Pattishall and McCabe follow the middle way and propose a quasi property right.

One of Port's arguments against property rights in trade marks is that the trade-mark proprietor does not have the exclusive right to control his mark, in contrast with the owner of corporeal property. However, the owner of corporeal property also does not have an unlimited capacity to act with the *res* at will. His "capacity to exercise ownership entitlements is still limited by law and by the rights of others".<sup>274</sup>

From an economic perspective it seems that property rights in trade marks are necessary to avoid the inefficient use of scarce resources.<sup>275</sup> A number of cases discussed above also lend credibility to the property right rationale. Even Port concludes that granting trade marks property rights is not "normatively wrong", but should be done intentionally.

Thus, it seems that the debate regarding the competing theories is set to continue. For purposes of this dissertation the outcome of the debate is however only of academic interest. The South African Supreme Court of Appeal in *Laugh It Off Promotions v SA*

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<sup>272</sup> See *Hyatt Corporation v. Hyatt Legal Services* 736 F.2d 1153 at 1159, 222 U.S.P.Q.2d 669 (7<sup>th</sup> Cir. 1984).

<sup>273</sup> See Chapter 3.5.3 "Role of the Status of the Trade-Mark Proprietor's Right in the Dilution Debate" *supra*.

<sup>274</sup> Mostert H *The Relevance of Constitutional Protection and Regulation of Property for the Private Law of Ownership in South Africa and Germany* LLD Stellenbosch (2000) 130.

<sup>275</sup> See Martino (1996) 78-85 and accompanying text to fn 235 *supra*.



*Breweries*, although noting some judicial resistance, declares unequivocally that trade marks are property.<sup>276</sup> Furthermore, from a practical perspective, a properly limited dilution doctrine provides a much needed remedy for a harm inadequately addressed by traditional trade-mark infringement remedies.

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<sup>276</sup> *Laugh It Off Promotions CC v SA Breweries International (Finance) BV t/a Sabmark International* [2004] 4 All SA 151 (SCA) 162g and 156b, where the court said: "On the other hand, and in spite of some judicial resistance in certain quarters, trade marks are property, albeit intangible or incorporeal. The fact that property is intangible does not make it of a lower order."



## CHAPTER 4

### LAW OF THE UNITED STATES OF AMERICA

#### 4.1 AMERICAN STATUTORY TRADE-MARK LAW PRIOR TO 1947

The purpose of trade-mark law is to promote economic efficiency and to give businesses the incentive to invest in a mark.<sup>1</sup> This takes place for the benefit of the consumer.<sup>2</sup> The benefits of a registration system led to the passing of trade-mark statutes in many different parts of the world. In the United States of America trade marks were afforded their first federal statutory protection in 1870.<sup>3</sup> This statute was enacted on international, rather than domestic demand, as it was primarily to implement international treaties already agreed upon.<sup>4</sup> Interestingly enough, this first statute was based on the English common law governing trade-mark protection.<sup>5</sup> The Act provided *inter alia* for the registration of trade marks without regard to whether or not they were used in interstate or foreign commerce.<sup>6</sup> This Act was however found to be unconstitutional by the United States Supreme Court in 1879.<sup>7</sup> The reason was that the statute was promulgated under

<sup>1</sup> McCabe KB "Dilution-by-Blurring: A Theory Caught in the Shadow of Trademark Infringement" (2000) 68 *Fordham Law Review* 1827 at 1832.

<sup>2</sup> This rationale is known as the "Consumer Protection Model". See Edgecombe JR "Off the Mark: Bringing the Federal Trademark Dilution Act in Line with Established Trademark Law" (2002) 51 *Emory Law Journal* 1247 at 1249.

<sup>3</sup> Act of 8 July 1870, ch.230 § 77-84, 16 Stat. 198, 210-212 entitled "An Act to Revise, Consolidate and Amend the Statutes Relating to Patents and Copyrights". This Act was amended in 1876. See Vuk WT "Protecting Baywatch and Wagamama: Why the European Union Should Revise the 1989 Trademark Directive to Mandate Dilution Protection for Trademarks" (1998) 21 *Fordham International Law Journal* 861 at 878; McCarthy JT *McCarthy on Trademarks* 4<sup>th</sup> ed (1996) West Group St Paul Minnesota § 5:3; Port KL "The Illegitimacy of Trademark Incontestability" (1993) 26 *Indiana Law Review* 519 at 525; Pattishall BW "The USA Courts and the Prevention of Unfair Competition" (1963) 53 *The Trademark Reporter* 599 at 602.

<sup>4</sup> See Port (1993 *Indiana LR*) 525 for more detail.

<sup>5</sup> Vuk (1998) 878.

<sup>6</sup> McCarthy (1996) § 5:3.

<sup>7</sup> *Trade-Mark Cases v. Steffens*, 100 U.S. 82 at 94 (1879). See Vuk (1998) 879; Port KL "Foreword: Symposium on Intellectual Property Law Theory" (1993) 68 *Chicago-Kent Law Review* 585 at 594 notes that the court reasoned that trade marks do not depend on any novelty, invention or discovery. No imagination, genius or laborious thought is necessary. Trade marks are just founded on priority of application.



the patent and copyright clause of the Constitution<sup>8</sup> instead of under the "Commerce Power" clause.<sup>9</sup> After another two years a new statute was passed by Congress, which provided for the registration of trade marks used in commerce with foreign nations and the Indian tribes, but did not cover interstate commerce.<sup>10</sup> According to McCarthy the provisions of this statute were totally inadequate. It was repealed and replaced by, what can be called, the first "modern" federal trade-mark registration statute in 1905.<sup>11</sup> This Act reintroduced the protection of trade marks in interstate commerce, but was limited in its effect as only purely fanciful and arbitrary marks could be registered. Thus descriptive marks, primarily geographical terms and personal names of individuals, firms and corporations could not be registered.<sup>12</sup> A series of amendments followed, with a major amendment in 1920, which *inter alia* made the registration of descriptive marks possible. In spite of this the Act still remained inadequate.<sup>13</sup>

Already in 1920 at a meeting of the Patent Section of the American Bar Association the first steps were taken in the formulation of what would become the Lanham Act some twenty-seven years later.<sup>14</sup> A commission that was appointed at that meeting to revise the Federal Trademark Act of 1905 drafted a bill for submission the following year. This draft became the "Vestal Bill".<sup>15</sup> The "Vestal Bill" was reconsidered by the American Bar Association between 1935 and 1937. They made some changes to the bill so that it created substantive-law rights as well as procedural advantages to trade-mark registrants.<sup>16</sup> Edward S Rogers, a prominent Chicago lawyer, drafted what would become the Lanham Act over several years as part of his services to the American Bar

<sup>8</sup> 1 USC § 8(8). See McCarthy (1996) § 5:3; Vuk (1998) 879.

<sup>9</sup> 1 USC § 8(3). This clause gives the power to regulate commerce with foreign nations and among the several states and with the Indian Tribes.

<sup>10</sup> Act of 3 March 1881, 26 Stat. 1106. McCarthy (1996) § 5:3.

<sup>11</sup> Act of 20 February 1905, 33 Stat. 724, 15 USC § 81 *et seq.* See McCarthy (1996) § 5:3. Port (1993 *Indiana LR*) 527 noted that this Act was not well conceived and had been described as "a slovenly piece of legislation, characterised by awkward phraseology, bad grammar and involved sentences [by a draftsman who] had a talent for obscurity amounting to genius".

<sup>12</sup> McCarthy (1996) § 5:3.

<sup>13</sup> See McCarthy (1996) § 5:3 for a brief discussion of some inadequacies.

<sup>14</sup> See Rogers ES "The Lanham Act & the Social Function of Trademarks" (1949) 14 *Law and Contemporary Problems* 173 at 177-180 for a detailed discussion of the legislative process between 1920 and 1947.

<sup>15</sup> HR Rep No 72-7118, (1931). See McCarthy (1996) § 5:4; Rogers (1949) 177.

<sup>16</sup> McCarthy (1996) § 5:4.



Association.<sup>17</sup> In 1937 he was asked to come and see the chairman of the House Patent Committee dealing with trademarks, Congressman Fritz Garland Lanham, who had heard of the Rogers draft and was highly interested.<sup>18</sup> Lanham introduced Rogers' personal draft of a Trade-mark Act the next year.<sup>19</sup> It however took another eight years, due to various distractions, including World War II, before it was enacted into law in 1946.<sup>20</sup> It took effect one year later on 5 July 1947.<sup>21</sup>

## 4.2 FEDERAL TRADE-MARK LAW SINCE 1947

Thus, after a lot of controversy and the enactment of several other trade-mark statutes, trade-mark law in the United States has been governed by the Lanham Act since 1947. This Act materially advanced and improved United States trade-mark and trade-identity law and has been generally rated as a success.<sup>22</sup> Its objectives were to codify the law and to modernise all existing trade-mark statutes, to comply with international commitments, to give clarity on conflicting interpretations thus eliminating confusion, to simplify and liberalise registration, to dispense with overly technical prohibitions and also to give prompt and effective relief in infringement cases.<sup>23</sup> In short, its purpose was to protect trade marks and to repress unfair competition.<sup>24</sup> However, protection was only given to trade-mark proprietors against unauthorised users who used identical or similar trade marks on similar or competing goods and where there was a likelihood of confusion. The basis for bringing a successful action against an infringer was thus being able to prove

<sup>17</sup> Pattishall BW "50<sup>th</sup> Anniversary of the Lanham Act: The Lanham Act at Fifty – Some History and Comment" (1996) 86 *The Trademark Reporter* 442. See Rogers (1949) 180 for his own rendering of the process.

<sup>18</sup> McCarthy (1996) § 5:4.

<sup>19</sup> HR Rep No 9041 introduced on 19 January 1938. Rogers (1949) 180.

<sup>20</sup> Pattishall (1996) 442. For more details on this whole process see McCarthy (1996) § 5:4 and the authorities cited there. See also Pattishall BW "The Lanham Trademark Act – Its Impact Over Four Decades" (1986) 76 *The Trademark Reporter* 193.

<sup>21</sup> Lanham Act § 46(a), 15 USC § 1051; Vuk (1998) 877.

<sup>22</sup> See Pattishall (1996) 448. See also the discussion of Denicola RC "Some Thoughts on the Dynamics of Federal Trademark Legislation and the Trademark Dilution Act of 1995" (1996) 59 *Law and Contemporary Problems* 75-83 on the success of the Lanham Act.

<sup>23</sup> See Pattishall (1996) 442; Rogers (1949) 182-183; Vuk (1998) 877 fn 73.

<sup>24</sup> Pattishall (1996) 445.



that elements of mistake, deception or confusion were present.<sup>25</sup> It is accepted that trade-mark law was in the first place developed to protect the consumer public from confusion, but at the same time it also protects the trade-mark proprietor's right to a non-confused public.<sup>26</sup> Probably the most remarkable feature of the Act, is the role it played in developing a unified theory of trade-mark law.<sup>27</sup> It essentially established a federal registration process for trade marks, defined instances of infringement and provided remedies. Registration on the Principal Register even constituted constructive notice of the registrant's claim of ownership of the registered mark. Registered trade marks were awarded a higher degree of protection than unregistered trade marks. Section 43, the only section affording relief to owners of unregistered marks, could be used to get relief in unfair competition and false advertising cases, also on condition that confusion could be proved.<sup>28</sup>

Furthermore, the Act only made provision for the protection of marks used in interstate commerce and also left important issues, such as the acquisition of exclusive trade-mark rights, to the common law.<sup>29</sup> In contrast with the position in England, the Lanham Act presupposed the existence of an exclusive trade-mark right under the common law. It merely established the presumption that the registered proprietor has the exclusive right to use the mark.<sup>30</sup> The consequence was that trade marks could only be acquired as a result of adoption and use. Unused marks or even marks intended to be used could not be registered in the United States. The reason for the "use" requirement was that the regulation of trade marks was based on the Commerce Clause of the Constitution and not the Patent and Copyright Clause.<sup>31</sup> This was, however, an unsatisfactory situation and also had the result that the United States did not comply with its obligations under the

<sup>25</sup> See Taviss ML "Case-note: In Search of a Consistent Trademark Dilution Test: *Mead Data Central, Inc. v. Toyota Motor Sales, U.S.A., Inc.*, 875 F.2d 1026 (2<sup>nd</sup> Cir. 1989)" (1990) 58 *University of Cincinnati Law Review* 1449 at 1453.

<sup>26</sup> Vuk (1998) 872 fn 48.

<sup>27</sup> Denicola (1996) 76.

<sup>28</sup> This section falls into Title VIII – "False Designations of Origin and False Descriptions Forbidden". See Taviss (1990) 1453-1454.

<sup>29</sup> Beier F-K "Basic Features of Anglo-American, French and German Trademark Law" (1975) *International Review of Industrial Property and Copyright Law* 285 at 290.

<sup>30</sup> Beier (1975) 291.

<sup>31</sup> Port (1993 *Chicago-Kent LR*) 594. See also discussion of the 1870 Statute *supra*.



Paris Convention.<sup>32</sup> This situation was fortunately rectified by the Trademark Law Revision Act of 1988.<sup>33</sup>

This Act implemented the intent to use system, described by Port as one of the most significant changes to United States trade-mark law.<sup>34</sup> Applications for trade-mark registration are now permitted prior to any use whatsoever of the mark. All that needs to be shown, is a *bona fide* intention to use the trade mark on goods in commerce.<sup>35</sup> Registration under this intent to use clause is possible for three years, whereafter the mark must in fact be used to keep the mark registered.<sup>36</sup> Furthermore, the filing of an application to register an intent to use mark constitutes constructive use of the mark, conferring a right of priority on the mark. Thus, once a mark is registered, the registrant enjoys a nationwide first use date as of the date of the intent to use application. If the proprietor of an intent to use trade-mark registration succeeds with an injunction against an infringer, but ultimately does not use the mark, the injunction will be set aside. Pattishall sees this expansion of trade-mark law as a positive, desirable step which relaxed to some extent the "rigidity of the use requirement".<sup>37</sup> Previously business persons had to spend considerable amounts of money on initial or preliminary use before it was legally sufficient for registration, without being protected if someone else chose to

<sup>32</sup> Convention of Paris for the Protection of Industrial Property 20 March 1883. It has been revised from time to time, the last revision having been effected at Stockholm on the 14<sup>th</sup> of July 1967. See Webster CE & Morley GE *Webster & Page South African Law of Trade Marks, Unlawful Competition, Company Names and Trading Styles* 4<sup>th</sup> ed (1997) Butterworths Durban par 8.47 & Appendix 6 for the text. See Beier (1975) 292.

<sup>33</sup> 15 USC § 1051(b) (1988). See also Chapter 4.5 "The Trademark Law Revision Act of 1988" *infra*.

<sup>34</sup> Port KL "The Congressional Expansion of American Trademark Law: A Civil Law System in the Making" (2000) 35 *Wake Forest Law Review* 827 at 835. A detailed discussion of the intent to use (ITU) system falls outside the scope of this dissertation, but see Port (2000) 835-874. He sees this as part of the congressional expansion of American trade-mark law, which moved the American system of trade-mark jurisprudence much closer to a civil law system.

<sup>35</sup> See Pattishall (1996) 446. Use must then be consummated within six months after publication and granting of the application, although it is possible to obtain an extension of this period. See also Port (1993 *Chicago-Kent LR*) 594-595; Port (2000) 835-836.

<sup>36</sup> Within six months of the date of the Notice of Allowance, issued by the United States Patent and Trademark Office, the applicant must file an affidavit claiming actual use or file a Request for and Extension of Time. The initial period can be extended for an additional six months without showing cause and an additional aggregate of twenty-four months by showing cause: thus a total of thirty-six months or three years. See Port (2000) 836.

<sup>37</sup> Pattishall (1996) 447.



copy the mark during that time.<sup>38</sup> Port argues that the intent to use provision would clearly have been held unconstitutional if addressed in the *Trade-Mark Cases*,<sup>39</sup> where the 1870 Act was found unconstitutional for the same reason.

One of the superior features of the Lanham Act was its broad definition of what can constitute a trade mark. A trade mark was defined as essentially any word, name, symbol or device used to identify or distinguish one's goods.<sup>40</sup> Although comprehensive statutory protection was afforded to trade marks under the Lanham Act, this protection was, as said above, only against infringing uses, which caused confusion as to the source or origin of the goods. The Act even provided for concurrent registrations where the same or substantially similar marks were used but only in different geographical areas or for different goods and services, therefore causing no likelihood of confusion.<sup>41</sup> The Model State Trademark Bill, which became the standard for state trade-mark legislation, was patterned on the Lanham Act.<sup>42</sup> There was no federal protection against uses of a trade mark that did not cause confusion, until 1995, when a dilution provision was added to the Lanham Act.<sup>43</sup>

<sup>38</sup> In the Lemon Tree case, *John Lecroy & Son, Inc. v. Langis Foods Ltd.*, 376 F.Supp. 962; 1974 U.S. Dist. LEXIS 8308; 182 U.S.P.Q. (BNA) 132 (Dist. D.C. 1974), the Canadian company Langis applied for registration of the LEMON TREE trade mark in the United States (Sept. '69 with priority date of March '69), before any use in the States. The plaintiff began to use the same trade mark in the United States (May '69) and thereafter applied for registration (June '69). The court determined at 967 that "prior right in a trademark in the United States depends on priority of use in the United States and is not affected by priority of use in a foreign country". The priority filing date could not grant a substantive right in the trade mark, if the mark had never been used in the United States. Defendant was, therefore, not entitled to registration of the LEMON TREE mark. This finding was, however, reversed in the Appeal case, *SCM Corp. v. Langis Foods, Ltd.*, 176 U.S. App. D.C. 194, 539 F.2d 196, 1976 U.S. App. LEXIS 8391, 190 U.S.P.Q. (BNA) 288 (D.C. Cir. 1976). See commentary of Port (2000) 856-857.

<sup>39</sup> See Chapter 4.1 "American Statutory Trade-Mark Law Prior to 1947" and fn 7 *supra*.

<sup>40</sup> Pattishall (1996) 442. The Lanham Act thus opted for an integrated approach to trade symbols and the archaic distinction between trade marks and trade names existing under common law was abandoned. See Denicola (1996) 77.

<sup>41</sup> See Pattishall (1996) 445.

<sup>42</sup> Model State Trademark Bill of 1949, revised in 1964 and 1992; Denicola (1996) 77.

<sup>43</sup> Vuk (1998) 868. See Chapter 4.7 "The Federal Trademark Dilution Act of 1995" *infra*.



### 4.3 PROTECTION AGAINST DILUTION UNDER STATE DILUTION LAWS

#### 4.3.1 PROTECTION AND RELATED PROBLEMS

The first statutory recognition of dilution in the United States also occurred in 1947, when the state of Massachusetts enacted a statute prohibiting dilution.<sup>44</sup> This was nearly twenty years after Schechter's article introducing the dilution theory. Illinois<sup>45</sup> and New York were the next states to enact statutes that offered trade marks protection against dilution in respectively 1953 and 1955.<sup>46</sup> They were followed by Georgia.<sup>47</sup> These statutes influenced subsequent judicial and legislative treatment of the dilution doctrine. Just about half of the states have considered dilution protection as worthy of adoption.<sup>48</sup>

<sup>44</sup> Act of 2 May 1947, ch. 307, § 7a, Mass. Acts 300 (codified as amended at Mass. Gen. Laws Ann. ch. 110B, § 12 (West 1996)): "Likelihood of injury to business reputation or of dilution of the distinctive quality of a trade name or trade-mark shall be a ground for injunctive relief in cases of trade-mark infringement or unfair competition notwithstanding the absence of competition between the parties or of confusion as to the source of goods or services". See Martino T *Trademark Dilution* (1996) Clarendon Press Oxford 29-30. Martino (1996) 30 describes the drafting process and clearly shows that the intention of the drafters was to limit the protection to coined or peculiar words and unique symbols. This was in the formulation of the House Bill as approved by the House of Representatives, but not in the Senate version of the Bill which became the new law. See also Handler MW "Are the state anti-dilution laws compatible with the national protection of trademarks?" (1985) 75 *The Trademark Reporter* 269 at 275; Vuk (1998) 863; Taviss (1990) 1457; Gilson, *Gilson on Trademark Protection & Practice* (1999) Matthew Bender & Company, Inc. § 5.12[1][b]; Garcia JA "Trademark Dilution: Eliminating Confusion" (1995) 85 *The Trademark Reporter* 489 at 492 fn 19; Port KL "The 'Unnatural' Expansion of Trademark Rights: Is a Federal Dilution Statute Necessary?" (1995) 85 *The Trademark Reporter* 525 at 530; Klieger RN "Trademark Dilution: The Whittling Away of the Rational Basis for Trademark Protection" (1997) 58 *University of Pittsburgh Law Review* 789 at 811; McCabe (2000) 1847; Kim PE "Preventing Dilution of the Federal Trademark Dilution Act: Why the FTDA Requires Actual Economic Harm" (2001) 150 *University of Pennsylvania Law Review* 719 at 726.

<sup>45</sup> It was quite ironic that Massachusetts and Illinois were the first two states to adopt dilution statutes as they were considered two of the most conservative states of the United States. See Martino (1996) 29.

<sup>46</sup> 1953 Ill. Laws 455, § 1 (codified at Ill. Ann. Stat. ch. 140, § 22 (Smith-Hurd 1986); 765 Ill. Comp. Stat. 1036/65 (West 2000)); New York, Act of 18 April 1955, ch. 453, § 1 (codified at N.Y. Gen. Bus. Law § 368-d (McKinney 1968); (McKinney 1996 & Supp. 2000), repealed by L. 1996, ch 319, § 2, eff. 1 January 1997). See Vuk (1998) 898 fn 209; Klieger (1997) 812; Handler (1985) 276.

<sup>47</sup> Pattishall (1963) 621; Klieger (1997) 812. Ga. Code Ann. § 106-112A (1955).

<sup>48</sup> Gilson (1999) § 5.12[1][a] & [b]. Gilson mentions that only 25 states enacted dilution statutes; McCarthy JT "The 1996 Federal Anti Dilution Statute" (1998) 16 *Cardozo Arts and Entertainment Law Journal* 587 mentions 26 states; Garcia (1995) 493 fn 26, Denicola (1996) 85 and Port (1995) 535 fn 65 mention 27 states. (However, Port (2000) 876 only refers to 25 states.) Klieger (1997) 811, Kim (2001) 726 and Lee DH "Remedying Past and Future Harm: Reconciling Conflicting Circuit Court Decisions Under the Federal Trademark Dilution Act" (2002) 29 *Pepperdine Law Review* 689 at 700 28, but Vuk (1998) 898 especially fn 211 gives a list of 31 states (with the citations of the different statutes), which according to him, have adopted statutory dilution protection, namely Alabama, Alaska, Arkansas, California, Connecticut, Delaware, Florida, Georgia, Idaho, Illinois, Iowa, Louisiana, Maine,



In addition, four other states, namely Maryland, Michigan, New Jersey and Ohio, recognised dilution as a common-law doctrine.<sup>49</sup>

At first, legislatures called these statutes “anti-dilution statutes”, because they were laws purporting to prevent dilution. In modern trade-mark law this term has, however, become obsolete.<sup>50</sup>

Although there are slight variations in the wording of the different state statutes, they are substantially similar.<sup>51</sup> Protection is generally given to distinctive or strong trade marks<sup>52</sup> where a similar mark is used on dissimilar goods<sup>53</sup> in such a way that the reputation of the senior mark will be injured. This can happen where the trade mark’s distinctiveness is injured or its image tarnished.<sup>54</sup> Although showing confusion as to source is unnecessary, the “gradual whittling away of trademarks’ distinctiveness through use by third parties on non-confusing, non-competing products” is prevented.<sup>55</sup> As there was no express reference to harm to the senior mark’s economic value in these statutes, dilution was interpreted as solely loss of the mark’s distinctiveness.<sup>56</sup> Most of the states in fact

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Massachusetts, Minnesota, Mississippi, Missouri, Montana, Nebraska, New Hampshire, New Mexico, New York, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Washington, West Virginia and Wyoming.

<sup>49</sup> Compare Gilson (1999) § 5.12[1][b] and Garcia (1995) 495. Port (1995) 535 and fn 66; Port (2000) 876 fn 204 only names Michigan, New Jersey and Ohio. His opinion is, however, that it is quite unlikely that a plaintiff would in these states prevail with a pure dilution cause of action under the common law. Before the enactment of a dilution statute Minnesota also had a common-law cause of action.

<sup>50</sup> See for example the comment by Gilson (1999) § 5.12[1][b]. But compare *SAB International t/a Sabmark International v Laugh It Off Promotions* [2003] 2 All SA 454 (C) 457d-e, where this obsolete term is still used in South African trade-mark jurisprudence.

<sup>51</sup> See Pattishall BW “The Dilution Rationale for Trade Mark – Trade Identity Protection, its Progress and Prospects” (1977) 67 *The Trademark Reporter* 607 at 609.

<sup>52</sup> The Massachusetts Statute was very broad, covering *any* trade mark, regardless of its uniqueness. This actually rendered the consumer confusion test immaterial. See Klieger (1997) 812.

<sup>53</sup> Historically the doctrine was only employed in the case of non-competitive goods, but the modern trend is to apply it to similar and competing products as well. See Garcia (1995) 492, especially the discussion at 497-500.

<sup>54</sup> Vuk (1998) 899.

<sup>55</sup> *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Celozzi-Ettelson Chevrolet Inc.* 855 F.2d 480 at 482, 8 U.S.P.Q.2d 1072 (7<sup>th</sup> Cir. 1988). See also Gilson (1999) § 5.12[2][a].

<sup>56</sup> Seitz BG “The Actual Harm Requirement and the Federal Trademark Dilution Act: *Ringling Brothers-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Development*” (1999) 10 *Journal of Art and Entertainment Law* 113 at 117. *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Development* 170 F.3d 449 at 454, 1999 U.S. App. LEXIS 4179, 50 U.S.P.Q.2d 1065 (4<sup>th</sup> Cir. 1999).



followed the wording of the Model State Trademark Bill of 1964,<sup>57</sup> which provides as follows:

"Likelihood of injury to business reputation or of dilution of the distinctive quality of a mark registered under this Act, or a mark valid at common law, shall be a ground for injunctive relief notwithstanding the absence of competition between the parties or the absence of confusion as to the source of goods or services."

If it can be proved that the mark is distinctive, relief is normally granted. Without distinctiveness, there is no "distinctive quality" to be injured. To determine distinctiveness the following factors may be considered: "The length of time the mark has been used, the scope of advertising and promotions, the nature and extent of the business and the scope of the first user's reputation."<sup>58</sup> Garcia contends that a distinctive mark is equal to a strong mark and therefore weak or new marks, which have not yet generated goodwill and beneficial consumer associations, cannot be protected. They do not have the attributes protected by a dilution statute.<sup>59</sup> A strong mark is then described as either having inherent distinctiveness or having acquired distinctiveness through secondary meaning. Klieger, however, differentiates between distinctive marks on the one hand and arbitrary, coined or fanciful words on the other hand.<sup>60</sup>

If the mark is coined or invented, however, distinctiveness is even easier to show. The state statutes do not require that the plaintiff's mark must be famous, although a number of courts applying the statutes have insisted on trade-mark fame. If the mark was well-known or famous, the courts almost certainly have found the requisite trade-mark distinctiveness. They also tended to grant relief to a famous mark, even where they would in other cases have required a likelihood of confusion. As has been noted by some

<sup>57</sup> Model State Trademark Bill § 12 (USTA 1964), drafted by The International Trademark Association (INTA); Klieger (1997) 813. The Model Bill currently closely follows the wording of the Federal Trademark Dilution Act. It was amended by the INTA subsequently to the submission of the proposed federal act to Congress. See Port (1995) 528. The scope of the Model Bill is now thus limited to famous trade marks. See in this regard Garcia (1995) 495.

<sup>58</sup> *Hyatt Corporation v. Hyatt Legal Services* 736 F.2d 1153 at 1158, 222 U.S.P.Q.2d 669 (7<sup>th</sup> Cir. 1984). See also Garcia (1995) 504 and other cases cited there.

<sup>59</sup> Garcia (1995) 503-505.

<sup>60</sup> Klieger (1997) 813. See also Edgecombe (2002) 1276; 1256-1258.



scholars, the line between truly distinctive marks and well-known or even famous marks is very thin or even non-existent.<sup>61</sup> This dichotomy between those requiring a mark to be famous, meaning a unique, arbitrary or coined mark, and those seeing distinctiveness in the sense of the identifier of a product as enough to qualify for dilution protection will certainly go on, even beyond a Federal Dilution Act.<sup>62</sup>

Although the dilution doctrine was traditionally only applied in the case of non-competing goods, the modern trend, also discernable from the state court decisions, is to apply it also where the products or goods are competing. According to Garcia this is the better view, supported by the Model State Trademark Bill and the purpose of the doctrine. This also makes the dilution action a valuable adjunct to statutory infringement and unfair competition claims.<sup>63</sup> There are however still conflicting decisions between some state courts. Garcia considers the adherence to only non-competitive application as a “stubborn and inexplicable adherence to an outdated theory”.<sup>64</sup>

The state statutes require a showing of a “likelihood of dilution”. To establish a “likelihood of dilution” a mental association between the two marks by consumers is required. Klieger feels that this is not sufficient as it “leaves unanswered the question of how a likelihood of dilution of the selling power of a mark is to be identified once the requisite mental connection has been made”.<sup>65</sup> The state courts generally recognised two different types of dilution, namely dilution by blurring and dilution by tarnishment.<sup>66</sup> A new dimension of dilution was however recognised in 1994 by the Second Circuit Court

<sup>61</sup> See for example Gilson (1999) § 5.12[2][b].

<sup>62</sup> See Chapter 4.10.2 “Distinctiveness” *infra*.

<sup>63</sup> Garcia (1995) 500-502, 497-500.

<sup>64</sup> This application is also despite the clear language of the statutes that relief will be afforded notwithstanding the absence of competition. Moreover, no explanations are given for their viewpoints. Garcia (1995) 499-500. See also the Federal Act, discussed in Chapter 4.7 “The Federal Trademark Dilution Act of 1995” *infra*, which expressly states that the dilution doctrine can be used, *inter alia*, “regardless of the presence or absence of (1) competition between the owner of the famous mark and other parties...”. But see Edgecombe (2002) 1278 who argues that dilution protection should only be possible in the case of non-competing goods and in the absence of confusion.

<sup>65</sup> Klieger (1997) 821-822.

<sup>66</sup> See Chapter 3.4 “Types of Dilution” *supra* for the distinction between these concepts.



in the *Deere* case.<sup>67</sup> This is referred to as imitative dilution or disparagement.<sup>68</sup> To determine blurring, the courts will normally evaluate a number of factors and then use a balancing test.<sup>69</sup> Demonstrating actual or potential harm to a trade mark is traditionally more difficult in the case of blurring than in the case of tarnishment.<sup>70</sup> The reason might be that blurring is based upon an associational quality between the marks, while in the case of tarnishment there is a more direct negative impact. Some courts, however, require proof of actual tarnishment and not just a risk of tarnishment.<sup>71</sup>

The “injury to business reputation” provision included in the Model Bill and most state dilution laws, was criticised by Pattishall as “unduly broad in scope and largely unrelated to the dilution concept”.<sup>72</sup> This concept is moreover also covered in the provisions of the Uniform Deceptive Trade Practices Act.<sup>73</sup> He further remarked that uses that cause this kind of injury are more likely to confuse as to source than to dilute. It also clouded the interpretation of the dilution concept by many courts. In contrast with these judgments, Judge Roberts in *Wedgwood v. Lund*,<sup>74</sup> gave a lucid explanation of this phrase. He stated that this phrase refers to tarnishment of reputation. If that is so, then there is actually no need for including this phrase in the dilution provision as tarnishment is traditionally encompassed within the meaning of dilution in the phrase “dilution of the distinctive quality of a mark”. This criticism was apparently noted by the drafters of the Federal Trademark Dilution Act as this Act just refers to “dilution of the distinctive quality of the

<sup>67</sup> *Deere & Co. v. MTD Products Inc.*, 41 F.3d 39, 32 U.S.P.Q.2d 1936 (2<sup>nd</sup> Cir. 1994), discussed in Chapter 4.3.3.1 “Second Circuit Cases” *infra*. See Garcia (1995) 493.

<sup>68</sup> See Chapter 3.4.4 “Disparagement or Imitative Dilution” *supra*.

<sup>69</sup> In the case of *Mead Data Central Inc. v. Toyota Motor Sales, U.S.A., Inc.*, 702 F.Supp. 1031, 9 U.S.P.Q.2d 1442 (S.D.N.Y. 1988), judge Sweet, in his concurring opinion, developed a test for determining likelihood of dilution. This test, although rejected by some courts and the subject of much criticism, has gained widespread acceptance. See Chapter 4.3.3.1 “Second Circuit Cases” *infra* for a detailed discussion of the case, as well as the “Sweet Factors” and see further Garcia (1995) 506-514.

<sup>70</sup> Garcia (1995) 493, 514-517.

<sup>71</sup> See Garcia (1995) 515 and Chapter 4.10.4 “Likelihood of Dilution vs Actual Dilution” *infra*.

<sup>72</sup> Pattishall BW “Dawning Acceptance of the Dilution Rationale for Trade Mark – Trade Identity Protection” (1984) 74 *The Trademark Reporter* 306-307.

<sup>73</sup> Reprinted in 7 Uniform Laws Ann 325 (1970). See Pattishall (1977) 623.

<sup>74</sup> *Wedgwood Homes, Inc. v. Lund* 294 Or. 493, 659 P.2d 377 at 381-382, 222 U.S.P.Q. 446 (Or. Sup. Ct. 1983), discussed in Chapter 4.3.3.1 “Second Circuit Cases” *infra*.



famous mark".<sup>75</sup>

In summary, the state dilution laws share the following four features:<sup>76</sup>

1. Protection for marks which possess distinctive quality.
2. Relief is granted if the senior user can demonstrate a "likelihood of dilution".
3. There is no express reference to harm of the senior mark's economic value.
4. Only injunctive relief is provided.<sup>77</sup>

The state courts in general were very slow to embrace the dilution concept, despite clear legislative acceptance.<sup>78</sup> This could be ascribed to the ambiguous language of some early statutes,<sup>79</sup> fears of monopolisation,<sup>80</sup> judicial antipathy<sup>81</sup> and confusion with the vested

<sup>75</sup> See discussion of this 1995 Act in Chapter 4.7 "The Federal Trademark Dilution Act of 1995" *infra*.

<sup>76</sup> See Seitz (1999) 117. See also *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Development* 170 F.3d 449 at 454, 1999 U.S. App. LEXIS 4179, 50 U.S.P.Q.2d 1065 (4<sup>th</sup> Cir. 1999).

<sup>77</sup> In *Mead Data Central Inc. v. Toyota Motor Sales, U.S.A.*, 702 F.Supp. 1031 at 1045, 9 U.S.P.Q.2d 1442 (S.D.N.Y.), reversed in 875 F.2d 1026, 10 U.S.P.Q.2d 1961 (2<sup>nd</sup> Cir. 1989) the district court, applying the New York dilution statute, found that the defendant diluted the LEXIS trade mark of the plaintiff and in order to soften the tremendous hardship of a permanent injunction, ruled that it could choose between subjecting itself to an injunction or, *inter alia*, financially compensating the plaintiff on an annual basis for the diminution in value of its mark. This is the only example of a court awarding monetary damages based solely on dilution under state legislation. See Garcia (1995) 490, 492 and Chapter 4.3.3.1 "Second Circuit Cases" *infra*.

<sup>78</sup> Pattishall (1977) 610, 612; Note "Dilution: Trade Mark Infringement or Will-o'-The-Wisp?" (1964) 77 *Harvard Law Review* 520; reprinted in (1964) 54 *The Trademark Reporter* 184 at 194. Port (1995) 530, 539 however, is of the opinion that the courts remained "unconvinced and openly hostile" to the dilution concept, in spite of clear legislative mandates. He uses the example of the New York dilution statute where the use of a mark may be prevented by way of injunction regardless of whether there are confusion or competition and regardless of whether the mark is registered. There is also no requirement of strength or fame, but still the Second Circuit Court in the *Mead Data* case refused an injunction without a showing of confusion and a famous or even very famous trade mark. See discussion of this case in Chapter 4.3.3.1 "Second Circuit Cases" *infra*.

<sup>79</sup> See Pattishall (1977) 615 who refers to the words "cases of trademark infringement or unfair competition" included in the original Massachusetts and New York statutes. This led to the situation where courts continue to require likelihood of confusion as pre-requisite for a dilution finding. See also Harvard note (1964) 195; Martino (1996) 35. Port (personal comments to the author in May 2000) comments that these statutes were actually very clear as to what they required. See also Port (1995) 530.

<sup>80</sup> Harvard note (1964) 194-195; McCabe (2000) 1841-1842; Martino (1996) 40. See also Chapter 3.5 "The Dilution Debate" *supra*.

<sup>81</sup> Martino (1996) 35.



infringement doctrine.<sup>82</sup> The dilution rationale stands in sharp contrast with the confusion of source rationale, on which the traditional infringement doctrine was based.<sup>83</sup> The issue of federal pre-emption could also have played a role in the courts' failure to apply the dilution rationale.<sup>84</sup> Other reasons could be an antipathy to modern advertising, judicial unwillingness to recognise a trade mark as property and relegation of the public interest to a role subordinate to private interests.<sup>85</sup> State dilution laws lacked uniformity and consistency in application.<sup>86</sup> Some scholars rate the application of the dilution concept by the state courts in general as largely unsuccessful.<sup>87</sup>

The protection given by the courts was seen as inadequate. The reason was that many courts did not grasp the concept, despite the apparently clear language of the Model Bill. The absence of any definition of the term "dilution" in the state statutes perhaps also contributes to this.<sup>88</sup> Klieger<sup>89</sup> comments that "dilution is an amorphous concept" and that no state dilution statute exactly addresses the questions what dilution is or how it can be proven. The courts were reluctant to enforce a dilution claim standing alone. By way of example, the courts, especially those of New York, sought some other basis, such as the traditional likelihood of confusion, before they were prepared to give an injunction in a dilution case.<sup>90</sup> The reasoning in some cases was that distinctive trade marks already

<sup>82</sup> See Taviss (1990) 1458. See also Garcia (1995) 495-496 who discusses the inclusion of the confusion requirement by some of the state courts when interpreting their common-law dilution doctrines.

<sup>83</sup> See Pattishall (1984) 308; Pattishall (1977) 622; Chapter 3.3 "Traditional Infringement contrasted with Dilution" *supra*.

<sup>84</sup> Martino (1996) 38-39. Federal pre-emption means that federal law, here the Lanham Act, overrules the state laws. An analysis of the federal pre-emption doctrine is beyond the scope of this dissertation. However, as noted by Martino, "nothing in the Lanham Act or its legislative history evinces an express or implied intent to preclude all state regulation of trademarks".

<sup>85</sup> Martino (1996) 40.

<sup>86</sup> Kim (2001) 727.

<sup>87</sup> Gilson (1999) § 5.12[1][a] & [b], although he mentions that there were a few exceptions. McCarthy (1998) 587 states that the state dilution laws were very seldom useful or effective. Port (1995) 530 comments that "no court accepted the true expansive meaning of dilution as expressed in the state statutes". See also Klieger (1997) 815-819; Kim (2001) 727.

<sup>88</sup> Pattishall (1977) 617.

<sup>89</sup> Klieger (1997) 794, 816-817.

<sup>90</sup> Pattishall (1963) 621-622; Martino (1996) 36. In 1977 Pattishall 612 declared that "[i]t is a sad commentary (and an unhappy testimonial) to our judicial process that the courts have not yet fully appreciated the concept of dilution". He goes on to say "it is especially disconcerting to read opinions which, despite state statutes clearly declaring that confusion is not a premise of dilution, still cling to the commonplace that dilution cannot be recognized as actionable unless the element of 'likely confusion' is present". He referred (at 613) to numerous courts which "have stated stubbornly and illogically that



enjoy fairly broad protection against use on unrelated products under the normal likelihood of confusion doctrine in the Lanham Act.<sup>91</sup> Contrary to this approach, some courts held that when confusion is present the dilution statutes could not be applied.<sup>92</sup> Some courts, notably the Illinois courts,<sup>93</sup> maintained that dilution protection could only be afforded in the case of non-competing goods. As a result they either ignored the dilution aspect or just remarked on it briefly at the end of a judgment. The New York lower courts<sup>94</sup> have nevertheless also applied the New York statute in cases where the products were in competition. It was also difficult to get a nationwide injunction under state law, forcing some trade-mark owners of famous national marks to institute multiple actions in different states in order to protect their trade marks from dilution.<sup>95</sup> The differences in state dilution laws also encouraged forum-shopping.<sup>96</sup> Another point of debate regarding state dilution law is about the meaning and content of distinctiveness. Some courts reasoned that only famous marks are entitled to protection, while others accepted a lower standard of distinctiveness.<sup>97</sup> The amount of protection that should be afforded to trade marks was also at issue.<sup>98</sup>

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relief from dilution requires evidence of likelihood of confusion". See cases cited there, *inter alia* *Haviland & Co., Inc. v. Johann Haviland China Corporation* 269 F.Supp. 928, 1967 U.S. Dist. LEXIS 11333, 154 U.S.P.Q. (BNA) 287 (S.D.N.Y. 1967) and *Cue Publishing Co., Inc. v. Colgate-Palmolive Company* 45 Misc. 2d 161, 256 N.Y.S.2d 239, 1965 N.Y. Misc LEXIS 2303, 144 U.S.P.Q. (BNA) 371, *affd.* 23 A.D.2d 829, 259 N.Y.S.2d 377, 1965 N.Y. App. Div. LEXIS 4224, 145 U.S.P.Q. 736 (1965) discussed in Chapter 4.3.3.1 "Second Circuit Cases" *infra*. See also Schwartz D & Morfesi D "Dilution Comes of Age: the United States, Europe and South Africa" (1997) 87 *The Trademark Reporter* 436 at 444.

<sup>91</sup> Gilson (1999) § 5.12[2][a].

<sup>92</sup> See Pattishall (1977) 614, as well as cases cited in fn 48.

<sup>93</sup> Illinois falls into the Seventh Circuit. See Gilson (1999) § 5.12[2][a] fn 119 for a list of these cases.

<sup>94</sup> New York forms part of the Second Circuit.

<sup>95</sup> Gilson (1999) § 5.12[1][b]; Garcia (1995) 517-520. In the case *Deere & Co. v. MTD Products Inc.*, 41 F.3d 39, 32 U.S.P.Q.2d 1936 (2<sup>nd</sup> Cir. 1994) the Second Circuit court explicitly recognised its authority to issue nationwide injunctions, although it upheld the district court's injunction limited to the State of New York.

<sup>96</sup> Belongia HL "Why is Fame Still Confusing? Misuse of the 'Niche Market Theory' Under the Federal Trademark Dilution Act" (2002) 51 *DePaul Law Review* 1159 at 1172.

<sup>97</sup> Taviss (1990) 1464. See also discussion in Chapter 4.3.3 "Cases under State Dilution Laws" *infra*. Compare to the situation under the Federal Act discussed in Chapter 4.10.2 "Distinctiveness" *infra*.

<sup>98</sup> Lee (2002) 701.



### 4.3.2 SOLUTIONS OFFERED

Varying solutions were offered by legal scholars. Derenberg favoured the Schechterian notion that protection must be limited to coined, unique or fanciful marks. He uses the collective term "celebrated marks".<sup>99</sup> Lunsford<sup>100</sup> proposed that the doctrine must be applied to all valuable and distinctive trade marks through a federal dilution statute. In a comment published in the *Harvard Law Review*<sup>101</sup> the view was expressed that it would be more desirable to confine dilution protection to coined or fanciful marks, but that there might be marks which had acquired strong secondary meanings that also deserved protection from dilution. Others also put the emphasis on the distinctiveness of the mark. A mark can acquire distinctiveness before it becomes well known and therefore there should not be a limitation to celebrated or famous marks.

Pattishall also strongly favoured protecting the distinctiveness<sup>102</sup> of the mark and saw it as the only quality that is to be protected.<sup>103</sup> It is a question of fact regarding the state of mind of the relevant market which can be proved, in contrast to the abstract question of invention or coining.<sup>104</sup> He also felt that there are enough safeguards against wholesale application built into this method of protection. He therefore contended that the protection of the distinctive quality or commercial magnetism of a trade mark should not necessarily be limited to coined, unique, fanciful, invented or arbitrary marks.<sup>105</sup> He found no social or commercial justification for such a limitation. According to him that would rather lead to "patent"-like protection for coined or invented trade marks. Also, the state dilution statutes do not require such a limitation. He goes on to say: "The limitation logically implicit in them is entirely adequate and may be described as follows:

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<sup>99</sup> Derenberg WJ "The Problem of Trademark Dilution and the Antidilution Statutes" (1956) 44 *California Law Review* 439 at 451.

<sup>100</sup> Lunsford JR "Trademarks: Dilution and Deception" (1973) 63 *The Trademark Reporter* 41 at 53-55.

<sup>101</sup> Harvard note (1964) 197-198.

<sup>102</sup> Distinctiveness can stem from the mark's uniqueness, long use, the superior quality of the goods for which it has been used, the skillful, appealing or extensive advertising of the mark or a combination of these factors. The way distinctiveness is attained should however be immaterial to the dilution question. See Pattishall (1977) 621.

<sup>103</sup> Pattishall (1977) 617.

<sup>104</sup> Pattishall (1977) 621.

<sup>105</sup> Pattishall (1977) 620-621.



‘That which does not have a distinctive quality may not be protected.’” This distinctive quality or commercial magnetism, which a mark can enjoy, can only be acquired by commercial use.<sup>106</sup> If the state courts could see the concept in this way, he believed that the legal problems relating to the state statutes would become much more manageable.

But some scholars like Middleton<sup>107</sup> viewed the whole concept of dilution as unwarranted and superfluous. He argued that it amounted to affording “patents” or “copyrights” on words. His answer to dilution was that the “likelihood of confusion” rationale should just be extended when necessary. Pattishall criticises both his attack on dilution and his solution for the problem of dilution.<sup>108</sup>

Pattishall, in 1977, ascribed a lot of the problems surrounding dilution to a misunderstanding of the concept.<sup>109</sup> However, state dilution law had developed gradually to the point in 1984 where Pattishall could state that “recent decisions are disclosing a maturing legal grasp of the anti-dilution concept”.<sup>110</sup> He also commented that these courts noted and rejected the errors of many previous decisions. The definitions of dilution given in these later decisions also appear to be quite sound and clear.<sup>111</sup> Despite this “dawn of anti-dilution enlightenment”, as Pattishall calls it, some of the district courts, while even recognising that confusion is not part of the dilution doctrine, still required a likelihood of confusion for a finding of dilution.<sup>112</sup>

<sup>106</sup> See the example of KODAK Pattishall uses at 621 to demonstrate his view.

<sup>107</sup> Middleton GE “Some Reflections on Dilution” (1952) 42 *The Trademark Reporter* 175 at 179, 187; Middleton GE “Some Aspects of Trademark Dilution” (1957) 47 *The Trademark Reporter* 1023 at 1032, 1033.

<sup>108</sup> See Pattishall (1977) 618.

<sup>109</sup> Pattishall (1977) 613.

<sup>110</sup> Pattishall (1984) 291. A few years later Garcia (1995) 524 also mentions positive changes to “anti-dilution” theory and states that the outcome of dilution cases in the state courts has become “more predictable and more easily established”.

<sup>111</sup> See Pattishall (1984) 295-297. He quotes definitions from various court cases decided after the watershed judgment in *Allied Maintenance Corporation v. Allied Mechanical Trades, Inc.*, 42 N.Y.2d 538, 369 N.E.2d 1162, 1977 N.Y. LEXIS 2429, 399 N.Y.S.2d 628, 198 U.S.P.Q. (BNA) 418 (1977), which is discussed in Chapter 4.3.3.1. “Second Circuit Cases” *infra*.

<sup>112</sup> See Pattishall (1984) 297 for references to these cases.



Notwithstanding the enactment of the Federal Trademark Dilution Act<sup>113</sup> in 1995 the state dilution laws will continue to be of importance. The main reason is that the federal law does not pre-empt the existing state laws and even common law. This means that action can still be brought under state law, for example, in cases where a trade mark does not have the required fame or is not used in an extensive geographical area.<sup>114</sup> Trade-mark owners will certainly chose federal recourse, wherever possible. In practice, they will normally institute action under the Federal Act, but also in the alternative under the state dilution law. The fact that federal dilution protection is available may, however, lead to the situation where state law becomes obsolete and may even be withdrawn.<sup>115</sup> State law precedent will, however, especially in the first few years of the Federal Act, play an important role in the interpretation of that statute. The "Sweet Test" formulated under the New York dilution law may, according to Gilson, become integral in interpreting the Federal Trademark Dilution Act.<sup>116</sup>

### 4.3.3 CASES UNDER STATE DILUTION LAWS

#### 4.3.3.1 SECOND CIRCUIT CASES

New York forms the centre of the Second Circuit.<sup>117</sup> In the earlier court decisions interpreting the New York dilution statute, it was given a quite narrow interpretation.<sup>118</sup> One of these cases was *Cue Publishing v. Colgate Palmolive*.<sup>119</sup> The plaintiff sought protection for his trade mark CUE for a magazine guide to dining and entertainment in New York against use of the same mark for toothpaste by the well-known manufacturer of toothpaste, soap and detergent products. Relief was denied, *inter alia*, because there

<sup>113</sup> Discussed in Chapter 4.7 "The Federal Trademark Dilution Act of 1995" *infra*.

<sup>114</sup> Gilson (1999) § 5.12[1][c][iv]; Schwartz and Morfesi (1997) 447.

<sup>115</sup> Gilson (1999) § 5.12[1][e].

<sup>116</sup> See Gilson (1999) § 5.12[1][f][v][A].

<sup>117</sup> Other states in the Second Circuit are Connecticut and Vermont.

<sup>118</sup> Gilson (1999) § 5.12[2][c].

<sup>119</sup> *Cue Publishing Co., Inc. v. Colgate-Palmolive Company* 45 Misc. 2d 161, 256 N.Y.S.2d 239, 1965 N.Y. Misc LEXIS 2303, 144 U.S.P.Q. (BNA) 371, affirmed 23 A.D.2d 829, 259 N.Y.S.2d 377, 1965 N.Y. App. Div. LEXIS 4224, 145 U.S.P.Q. 736 (1965).



was no likelihood of confusion, also no possible injury to the business reputation of the plaintiff.

Both parties had registered the name CUE in the United States Patent Office, plaintiff in 1935 and defendant in 1939, as well as in a number of states. The defendant has actually been using CUE for over 25 years at the time of the trial, although not continuously. The court also remarked on the standing, status and stature of the defendant corporation, from which it was clear that they did not try to ride on plaintiff's goodwill. The court, after interpreting previous case law, established that "some measure of confusion" must be present for a finding of dilution. The plaintiff had also failed to prove "distinctive quality" which is necessary in a dilution claim. CUE is a simple word of the English language and no secondary meaning had been acquired by plaintiff's use of the mark CUE. Plaintiff also claimed tarnishment as a separate ground of action. It alleged that the advertisements for CUE toothpaste would create oral hygiene connotations for the name CUE, which are grossly inconsistent with their use of name as symbol for fine dining. The court found this argument farfetched and without merit, also commenting that CUE magazine had not yet achieved the same amount of fame as for example Tiffany and Rolls Royce.

Another early decision of the Southern District Court of New York also reflected the reluctance of the courts to embrace the dilution concept. In *Haviland & Co., Inc. v. Johann Haviland China Corporation*<sup>120</sup> the court stated: "Plaintiff cannot claim right to relief under the New York State anti-dilution statute, since it has failed to show likelihood of confusion or unfair intent on the defendant's part." This was the common view held by courts at that stage.<sup>121</sup>

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<sup>120</sup> *Haviland & Co., Inc. v. Johann Haviland China Corporation* 269 F.Supp. 928 at 957, 1967 U.S. Dist. LEXIS 11333, 154 U.S.P.Q. (BNA) 287 (S.D.N.Y. 1967). The parties marketed different types of chinaware and therefore, although competitors, could not be described as direct competitors.

<sup>121</sup> See Pattishall (1977) 612.



In the years following these and other decisions, the Second Circuit courts granted more esteem to the dilution statute and also increased its application.<sup>122</sup> In the landmark<sup>123</sup> 1977 case of *Allied Maintenance v. Allied Mechanical Trades*,<sup>124</sup> the court broke with the long-standing judicial reluctance to apply the clear language of state dilution statutes.<sup>125</sup> The court clearly stated that the statute meant exactly what it states – it did not require proof of either likelihood of confusion or competition. It was designed to provide protection above and beyond the traditional trade-mark protection for infringement or unfair competition. It accepted that the provision should be interpreted literally to effectuate its intended purpose, namely protection against dilution, which they defined as “a cancer-like growth of dissimilar products or services which feeds upon the business reputation of an established distinctive trademark or name”. It was, however, stressed that it is only marks that are truly distinctive or have acquired secondary meaning that deserve this protection. This reasoning appeared to be consistent with Schechter’s interpretation of the concept of dilution.<sup>126</sup>

The plaintiff had since 1888 cleaned and maintained office buildings. The defendant started in 1968 to install and repair heating, ventilating and air-conditioning equipment. Neither competition nor likelihood of confusion was found by the Appellate Division. The majority emphasised that dilution relief was available. They, however, found that

<sup>122</sup> Port (1995) 532, however, disagrees. He holds the opinion that the courts remained “extremely hesitant” to apply the dilution doctrine. According to his research dilution has arisen only 159 times in federal courts of appeal between 1977 and 1995. An injunction was sustained solely on the basis of dilution in only 4 of these cases. These cases were *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Celozzi-Ettelson Chevrolet Inc.*, 855 F.2d 480, 8 U.S.P.Q.2d 1072 (7<sup>th</sup> Cir. 1988); *Hyatt Corp. v. Hyatt Legal Services*, 736 F.2d 1153, 222 U.S.P.Q.2d 669 (7<sup>th</sup> Cir. 1984); *The Instrumentalist Co. v. Marine Corps League and the United States Marine Youth Foundation Inc.*, 694 F.2d 145, 1982 U.S. App. LEXIS 23832, 216 U.S.P.Q. (BNA) 951 (7<sup>th</sup> Cir. 1982); *Community Federal Savings and Loan Ass’n v. Orondorff*, 678 F.2d 1034, 1982 U.S. App. LEXIS 18225; 215 U.S.P.Q. (BNA) 26 (11<sup>th</sup> Cir. 1982); all discussed in Chapter 4.3.3.2 “Seventh Circuit Cases” and Chapter 4.3.3.4 “Eleventh Circuit Cases” *infra*.

<sup>123</sup> This case was also described as “the beginning of a new age of dilution” and “triggering a renaissance in dilution application”. See Martino (1996) 40, 44. Handler (1985) 277 refers to a “one-hundred eighty degree shift in the judicial attitude towards the antidilution legislation”.

<sup>124</sup> *Allied Maintenance Corporation v. Allied Mechanical Trades, Inc.*, 42 N.Y.2d 538, 369 N.E.2d 1162, 1977 N.Y. LEXIS 2429, 399 N.Y.S.2d 628, 198 U.S.P.Q. (BNA) 418 (1977).

<sup>125</sup> Taviss (1990) 1459; Klieger (1997) 819; Welkowitz DS “Protection against Trademark Dilution in the U.K. and Canada: Inexorable Trend or will Tradition Triumph?” (2000) 24 *Hastings International and Comparative Law Review* 63 at 68 fn 18.

<sup>126</sup> Port (1995) 531.



the word ALLIED MAINTENANCE had not acquired the necessary secondary meaning and thus distinctive quality, but in contrast, was a weak, generic or descriptive trade name. Thus, although dilution proponents view this case as an important turning point in the acceptance by the courts of the dilution concept, they actually rely on a case where the court did not find dilution.<sup>127</sup>

Judge Cooke, in a dissenting opinion, addressed the distinctiveness issue.<sup>128</sup> He expressed the view that a narrow, overly technical interpretation would dilute the dilution statute. He suggested a broader view in the light of the wider protection available under the State common law. He stressed the fact that a less well-known name can also be diluted and that the effect can even be more harmful than in the case of a well-known mark. He saw the name ALLIED as having acquired a secondary meaning amongst a certain segment of the public and should therefore be granted protection.

From the *Allied* case it was clear that there were two requirements that must be satisfied in a dilution claim. In the first place, the senior mark had to be distinctive and secondly, there had to be a likelihood of dilution.<sup>129</sup> Distinctiveness can be acquired through the inherent strength of the mark or through an acquired secondary meaning. A secondary meaning is attained when the public has come to associate a certain mark only with a specific product. In *Wedgwood Homes, Inc. v. Lund*<sup>130</sup> the Oregon Supreme Court attempted to define this concept of distinctiveness more clearly. The court said that the value of a mark was in its advertising and selling power and it was against this background that distinctiveness had to be interpreted. This selling power consisted of the favourable associations that attracted customers, sometimes called "commercial magnetism". The selling power, according to the court, could develop over time. In other words, the mark could gain a secondary meaning and thus become distinctive.

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<sup>127</sup> See Port (1995) 531.

<sup>128</sup> See also comments of Martino (1996) 42.

<sup>129</sup> See Taviss (1990) 1460; Martino (1996) 41. The court in *Wedgwood, infra*, saw only "diminution of the uniqueness" of a mark as fulfilling the second requirement of "likelihood of dilution".

<sup>130</sup> *Wedgwood Homes, Inc. v. Lund*, 294 Or. 493, 659 P.2d 377 (1983). See Chapter 4.3.3.3 "Ninth Circuit Cases" *infra* for a more detailed discussion.



The appeal court in *Sally Gee v. Myra Hogan*,<sup>131</sup> although not finding dilution, nevertheless clarified the circumstances under which it applies. They emphasised the fact that it is the selling power of a mark that the courts seek to protect and that consumer confusion and direct competition are not elements of a dilution claim.<sup>132</sup> The two-pronged *Allied* test was used, but the court held that only very strong marks that are in effect famous, could be regarded as distinctive. The court held further that the only possible types of dilution under the likelihood of dilution requirement were blurring or tarnishment. Although the SALLY GEE mark was recognised as fairly strong and fanciful, neither blurring nor tarnishment could be proved. The court also took an unduly narrow view of the concept of selling power. It appears that the fact that the junior user's use was on a product of greater quality caused the court to decide that there was no diminution of the selling power of the mark SALLY GEE.<sup>133</sup> However, the reputation of an inexpensive product is not less valuable than that of a more exclusive product. The court also took into account the absence of predatory intent. Pattishall criticised this inclusion of wrongful intent as a requisite element of a dilution action.<sup>134</sup>

In *Mead Data Central, Inc. v. Toyota Motor Sales, U.S.A., Inc.*<sup>135</sup> even more content was added to the New York dilution provision.<sup>136</sup> The controversial "Sweet Test" was also formulated by Judge Sweet in his concurring opinion in this case. Mead Data was using

<sup>131</sup> *Sally Gee, Inc. v. Myra Hogan, Inc.*, 699 F.2d 621, 1983 U.S. App. LEXIS 30710, 217 U.S.P.Q. (BNA) 658 (2<sup>nd</sup> Cir. 1983).

<sup>132</sup> Contrary to the finding of the district court. The applicant tried to protect the registered trade mark SALLY GEE used on low-priced women's apparel against the use of the name SALLY LEE for highly priced, high-quality, hand-made women's apparel.

<sup>133</sup> See Garcia (1995) 505, who argues that part of Sally Gee's interest in its mark related to its reputation for the value that its ready-made clothes offered consumers. The appeal of Sally Gee's clothing can thus also be diminished by higher-quality, more expensive hand-made clothing.

<sup>134</sup> Pattishall (1984) 307. See other cases cited there. See also Pattishall BW "The Impact of Intent in Trade Identity Cases" (1970) 65 *NW U L Rev* 421, reprinted in (1970) 60 *The Trademark Reporter* 575 for a general discussion of the nature, historical development, proof and appearance in case law of intent in the broader context of trade identity law.

<sup>135</sup> *Mead Data Central, Inc. v. Toyota Motor Sales, U.S.A., Inc.* 875 F.2d 1026, 1032, 10 U.S.P.Q.2d 1961 (2<sup>nd</sup> Cir. 1989). This case is regarded as one of the leading cases under New York's dilution law. See Schwartz and Morfesi (1997) 441. See also the summary of the case in Schwartz and Morfesi (1997) 441-444.

<sup>136</sup> Port (1995) 540 uses this case as an example of the reluctance of the courts to apply the dilution doctrine, as the Second Circuit Court required a demonstration of confusion, as well as a high degree of fame, despite the clear language of the New York dilution statute to the contrary.



the registered trade mark LEXIS<sup>137</sup> for an on-line legal research service. The appeal court indicated that LEXIS was a strong mark in the legal and computerised legal research fields, although the general public did not associate LEXIS with any particular product. The court declared that "lexis" was a common word in the English language. There was also evidence of several other companies using the word "lexis" in their trade names. Toyota Motor Corporation then started to use the name LEXUS on a new range of luxury automobiles for well-educated, professional consumers.<sup>138</sup> Mead Data claimed dilution under the New York dilution statute. The appeal court accepted the two elements defined in the *Allied* case, namely, sufficient distinctive quality capable of dilution and likelihood of dilution, but also imposed a third requirement of mark similarity. They also accurately defined dilution as requiring "some mental association between the marks". They, however, rejected Mead Data's claim.<sup>139</sup> The main contentions of the court were that LEXIS and LEXUS were insufficiently similar and that the LEXIS mark was distinctive only within a narrow group of sophisticated purchasers, with the result that LEXIS has very little selling power outside that market. For these reasons blurring was unlikely. The court required *substantial* similarity before they would apply the dilution doctrine. They believed that the requisite mark similarity did not exist between LEXIS and LEXUS, because lawyers and television and radio announcers in commercial advertising would pronounce the words LEXIS and LEXUS differently. For blurring to occur, the court stated that there must be "some kind of mental association" between the marks of the plaintiff and the defendant. They found that in the eyes of the general public, LEXIS had no distinctive quality that LEXUS

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<sup>137</sup> The applicant claimed that this coined word was a combination of "lex", the Latin word for law and "I.S." an acronym for Information System.

<sup>138</sup> The Project Manager took the name *Alexis*, suggested by a marketing company, dropped the "A" and arrived at *Lexis*. He claimed that he was not aware of Mead's LEXIS mark. He changed the "i" for an "u" because he felt that it connoted luxury. See Martino (1996) 47.

<sup>139</sup> The district court had granted the dilution claim, noting that LEXUS would become extremely well-known and that the advertising value of the LEXIS mark would be diminished and diluted. *Mead Data Cent., Inc. v. Toyota Motor Sales, U.S.A., Inc.*, 702 F.Supp. 1031 (S.D.N.Y. 1988). See the discussion in Martino (1996) 48-49.



would dilute.<sup>140</sup> The sophistication of LEXIS' clients also played an important role in the final outcome of this case.

The majority has been criticised for not defining blurring adequately, by making only "vague conclusions about mental associations and limited markets". It is not possible to ascertain from their reasoning why they came to their conclusion or how the dilution or blurring test must be applied in future cases.<sup>141</sup> Their only contribution seems to be the holding that dilution cannot occur absent substantial mark similarity.<sup>142</sup>

Judge Sweet gave a concurring opinion, but disagreed with the majority's conclusion that LEXIS was not a strong mark capable of dilution. Although he also was in favour of the two-part *Allied* test, he held a different view of the factors necessary for a finding of dilution. With regard to the question of distinctive quality, he remarked that the majority's view limited protection to nationally famous marks.<sup>143</sup> He saw the renown of the senior mark as a factor to determine likelihood of dilution, and not distinctiveness. His opinion was that the interest protected is the *selling power* that a distinctive mark has created in the mind of the *consuming* public. As LEXIS has selling power<sup>144</sup> amongst its consuming public, it should be protectable as a distinctive mark. Taviss agrees with this reasoning of Judge Sweet and also points out what he regards, as the faulty reasoning of the majority.<sup>145</sup>

Judge Sweet, in his opinion, formulated the following unified, six-factor test, after reviewing previous anti-dilution cases in the Second Circuit, to determine whether there was a sufficient likelihood of blurring to constitute a likelihood of dilution:

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<sup>140</sup> If this case had been decided under the Federal Trademark Dilution Act, the outcome probably would have been the same as LEXIS is not a famous trade mark according to the eight factor test laid down in the Act. See Chapter 4.7.1 "Definition of Dilution in the Act" *infra*.

<sup>141</sup> See Taviss (1990) 1472.

<sup>142</sup> Martino (1996) 51.

<sup>143</sup> See also the discussion by Taviss (1990) 1468.

<sup>144</sup> Also called commercial magnetism. See Taviss (1990) 1472.

<sup>145</sup> Taviss (1990) 1472. See also the critical discussion of this case by Port (1995) 540-544. He concluded at 543 that the "judicially-crafted contortions used to avoid an injunction based upon trade-mark dilution can only lead to the conclusion that at least the Second Circuit is not receptive to the dilution cause of action."



- (1) The similarity of the marks;
- (2) The similarity of the products covered by the marks;
- (3) The sophistication of the consumers;
- (4) Predatory intent;
- (5) The renown of the senior mark; and
- (6) The renown of the junior mark.

These factors form the standard for a dilution-by-blurring analysis and have been adopted by virtually all courts hearing subsequent blurring claims.<sup>146</sup> Each of these six factors will now be briefly discussed, followed by an analysis of the response to the “Sweet Test” by some commentators and in some subsequent cases.

#### (i) The similarity of the marks

This factor is clearly an important one in the determination of dilution. It is generally accepted that exact identity between the marks is not required, but the more similar the marks the higher the likelihood of dilution.<sup>147</sup> As there is no exact way to measure similarity, some say that there must be some mental association between the marks. It is clear that if the marks are totally dissimilar, dilution cannot be present.<sup>148</sup> Although Judge Sweet found that LEXIS and LEXUS are similar in pronunciation, he noticed that there were differences in context and physical appearance. He rejected the majority’s view that mark similarity is separate element of a dilution claim, as this would only cloud the already difficult application of this concept. This is also stressed by Taviss who holds the opinion that “mark similarity should not be dispositive of whether a mark deserves dilution protection”.<sup>149</sup> He also remarks, that the majority, although finding insufficient similarity went on with their analysis in the case, thereby showing distrust for the conclusiveness of their own test. Other decisions in which a likelihood of dilution was

<sup>146</sup> Some of these cases will be discussed *infra* in this Chapter.

<sup>147</sup> See for example Garcia (1995) 507.

<sup>148</sup> See Gilson (1999) § 5.12[1][f][v][A]; Garcia (1995) 508 and examples given there.

<sup>149</sup> Taviss (1990) 1471. See *infra* how he uses this factor in combination with consumer sophistication to determine the likelihood of dilution.



found because of the close similarity between the marks, are *McDonald's Corporation v. McBagel's*<sup>150</sup> and *Toys "R" Us v. Canarsie Kiddie Shop*.<sup>151</sup>

## (ii) The similarity of the products

According to Judge Sweet the similarity of the products covered by the marks, increases the likelihood of blurring. As the two products in question, namely automobiles and computer assisted legal research were so dissimilar, it counted against a finding of blurring. Some have criticised this factor, as dilution, in the classic sense, could only be found if the famous mark is used on totally unrelated products. It is, however, generally accepted that it is also possible for dilution to occur where the goods are similar. Garcia sees it as an important factor in these cases to determine the rights and obligations of the parties,<sup>152</sup> but this factor would still be more relevant in a likelihood of confusion test.<sup>153</sup> Gilson views this one as the only factor that should not be part of the "Sweet Test".<sup>154</sup> Pattishall, however, indirectly endorses this factor, when he states that there can be differences between goods which are so substantial that the use on the second is too remote to cause dilution of the prior mark.<sup>155</sup> This seems to be in contravention with the traditional dilution theory.

<sup>150</sup> *McDonald's Corporation v. McBagel's, Inc.*, 649 F.Supp. 1268 at 1275, 1281, 1 U.S.P.Q.2d 1761 (S.D.N.Y. 1986). The court prevented by injunction the use of the McBAGEL's trade mark by defendant in connection with a bagel bakery and restaurant in New York. The court said at 1281 that "the similar element that associates defendant's name with plaintiff's family of marks, the use of the 'Mc' prefix with the name of a generic food item, is immediately apparent." The distinctiveness of plaintiff's marks and predatory intent on the side of the defendant were also taken into account in the court's finding of dilution.

<sup>151</sup> *Toys "R" Us, Inc. v. Canarsie Kiddie Shop, Inc.*, 599 F.Supp. 1189 at 217 U.S.P.Q. 1137 (E.D.N.Y. 1983). Toys "R" Us, the well-known toy store, also sells children's clothing under its registered trade mark TOYS "R" US. Defendant then began to sell their children's clothing under the KIDS 'r' US trade mark. The court determined at 1207 that TOYS "R" US has acquired a secondary meaning and therefore was distinctive. The court then said: "...the identity of the 'R'US suffixes and the similarity of the children's products sold by the stores compels me to conclude that the name KIDS 'r' US is likely to blur TOYS "R" US' product identification." The court also found predatory intent.

<sup>152</sup> Garcia (1995) 508-509.

<sup>153</sup> See Taviss (1990) 1473 who also finds this factor an inadequate measure of likelihood of dilution, but fit for the measure of likelihood of confusion. This is also the conclusion of Martino (1996) 52.

<sup>154</sup> Gilson (1999) § 5.12[1][f][v][A].

<sup>155</sup> Pattishall (1984) 299.



### (iii) The sophistication of the consumers

If the consumers of the goods bearing the famous mark are quite sophisticated, this factor will favour the defendant. This was exactly the position in the *Mead Data* case. This is because in such a case, it is less likely that the junior mark will dilute the distinctiveness of the senior mark.<sup>156</sup> This factor, together with the similarity of the marks, are the only true indicators of the likelihood of dilution, according to Taviss.<sup>157</sup> He sees consumer sophistication as relevant to the determination of the scope of a mark's selling power. He argues as follows: "The smaller the market for a product, the more sophisticated the consumers must be in order to be aware of the product. In other words, consumer sophistication is a direct measure of the degree of dilution that is likely to occur." He sees a balancing of consumer sophistication and the similarity of the marks, as the proper way of determining the likelihood of dilution. This stands in sharp contrast with the view of Martino, who sees this factor as a more appropriate measure of the likelihood of confusion.<sup>158</sup>

### (iv) Predatory intent

Predatory intent refers to a conscious decision by the junior user to profit from the goodwill generated by the senior user's mark. This is regarded, by Gilson, as an entirely appropriate issue in a dilution context,<sup>159</sup> but Taviss found it of no bearing on the possibility of dilution.<sup>160</sup> Judge Sweet admitted that this factor alone cannot constitute a cause of action under the New York dilution statute.<sup>161</sup> But the legislative history of the

<sup>156</sup> See also Gilson (1999) § 5.12[1][f][v][A]. Garcia (1995) 510 states that more sophisticated consumers are "less likely to suffer confusion about a product's source by the use of similar marks". Thus, Garcia, citing a few cases as authority, erroneously brings the confusion concept into the test for trade-mark dilution. If a person is confused as to source, he cannot possibly experience dilution.

<sup>157</sup> Taviss (1990) 1474. See also the example he postulates in fn 246.

<sup>158</sup> Martino (1996) 53. He says that this is the "clearest indication yet that the *Mead* minority conflated the concepts of dilution and confusion".

<sup>159</sup> Gilson (1999) § 5.12[1][f][v][A].

<sup>160</sup> Taviss (1990) 1473; Martino (1996) 53-54. They argue that if dilution is likely to occur, it is likely whether or not the junior user's selection of a mark was intentional. See also criticism against the inclusion of wrongful intent as a requisite element in a dilution claim by Pattishall (1984) 307.

<sup>161</sup> See also Garcia (1995) 511-512.



New York statute offers support for predatory intent as a relevant factor to determine dilution<sup>162</sup> in the following words: "the owners of established trade-marks may be expected to welcome protection of their good names against attempts by infringers, with infinite other words to choose from, to obtain a free ride."<sup>163</sup> If it can be demonstrated that the junior user acted in bad faith, believing that he can benefit commercially from the fame or reputation of the senior mark, this will certainly be regarded as strong evidence of predatory intent.<sup>164</sup> Mere knowledge by the junior user of the senior mark is not enough for a finding of predatory intent. At the same time, if all the other factors indicate a finding of blurring, the fact that the junior user acted in good faith will not be of much help to his case. In numerous decisions this factor was recognised as relevant to determine dilution,<sup>165</sup> but it can be very difficult to prove. Prior knowledge of the senior mark, open confessions and even the timing of use by the defendant, can indicate predatory intent.<sup>166</sup>

In the *Deere v. MTD Products* case<sup>167</sup> the court noted the factor of predatory intent, as formulated in *Mead Data*, but stated that New York law has not "authoritatively clarified" what "predatory intent" means in a dilution claim. Therefore, they handled the concept very cautiously, but noted that it can be helpful in the context of trade-mark parody or alteration. In a previous case, *Sally Gee v. Myra Hogan*,<sup>168</sup> the absence of predatory intent by the junior user was also found to be a relevant factor in assessing a claim under the anti-dilution statute.

<sup>162</sup> See Garcia (1995) 512.

<sup>163</sup> N.Y. Leg. Ann. 49 (1954), quoted in *Mead Data Central Inc. v. Toyota Motor Sales, U.S.A., Inc.*, 875 F.2d 1026 at 1037, 10 U.S.P.Q.2d 1961 (2<sup>nd</sup> Cir. 1989).

<sup>164</sup> See Mostert FW "Well-known and Famous Marks: is Harmony Possible in the Global Village?" (1996) 86 *The Trademark Reporter* 103 at 123 quoting from Miles Alexander's statement at the 1995 INTA Annual Meeting.

<sup>165</sup> See authority cited in the *Mead Data* case at 1037 and the cases discussed *infra*. There is, however, some authority where this factor was omitted. See *Clinique Laboratories, Inc., v. Dep Corp.*, 945 F. Supp. 547 (S.D.N.Y. 1996). This omission was criticised by Gilson (1999) § 5.12[1][f][v][A].

<sup>166</sup> The courts normally draw inferences from all the circumstances of use by the junior user. This might be potentially unfair towards the junior user. See Garcia (1995) 512.

<sup>167</sup> *Deere & Co. v. MTD Prod., Inc.*, 41 F.3d 39, U.S.P.Q. 2d 1936 (2<sup>nd</sup> Cir. 1994), discussed *infra* in this section.

<sup>168</sup> See *Sally Gee, Inc. v. Myra Hogan, Inc.*, 699 F.2d 621, 1983 U.S. App. LEXIS 30710, 217 U.S.P.Q. (BNA) 658 (2<sup>nd</sup> Cir. 1983) *supra* in this section.



**(v) The renown of the senior mark**

This factor is still heavily debated in the legal literature on dilution law. For some it is quite obviously relevant in the dilution context.<sup>169</sup> This is especially demonstrated by the Federal Trademark Dilution Act, where it is not only a requirement for a dilution claim that the senior mark must be famous, but where there is also a list of factors included for the determination of a famous mark.<sup>170</sup> The argument runs that the more well known a senior mark is, the more likely it is that the junior mark will blur its capacity to distinguish goods. Although Judge Sweet found LEXIS to be a strong, distinctive mark, it lacked the renown necessary for a finding of a likelihood of blurring.<sup>171</sup> Garcia views renown to be identical with the "strength" of the mark, but she also holds the opinion that only well-known marks merit protection from dilution. The inclusion of this factor in the dilution test was, however, criticised by Taviss, who contends that an unknown mark can just as easily be diluted as a famous mark.<sup>172</sup> He actually believes that a famous mark is less likely to be diluted, because of its established value in the minds of consumers.

**(vi) The renown of the junior mark**

This factor comprises the prospect that a junior mark may become so famous that it will overwhelm the senior mark. The result might be that the junior user would then be entitled to the same protection as that which the senior user is seeking. It was used in the *Mead Data* case in a newcomer situation, where the junior user was just entering the market. This factor supported the likelihood of dilution of the LEXIS mark by the LEXUS mark, the junior mark in this case, as the court found that the use by Toyota of the LEXUS mark could ultimately overtake the senior user's use. Judge Sweet mentioned, though, that situations where the junior mark has the potential of becoming so famous that it would overwhelm the senior mark, will arise quite rarely in dilution cases.

<sup>169</sup> See Martino (1996) 54 who sees renown of the senior mark as a "true measurement" for dilution relief.

<sup>170</sup> See discussion of the Act and the specific factors in Chapter 4.7.1 "Definition of Dilution in the Act" and Chapter 4.7.2 "Discussion of the Different Factors" *infra*.

<sup>171</sup> He accepted the general rule at that stage that the senior mark need not be famous. It must be kept in mind that the state dilution laws did not require a mark to be famous before it qualified for protection.

<sup>172</sup> Taviss (1990) 1473.



Gilson, while admitting the speculative element of this factor, feels that it should be retained and definitely applied to newcomer situations.<sup>173</sup>

#### (vii) Balancing the factors

The last step to determine the likelihood of dilution by blurring would then be the balancing of the mentioned factors. Judge Sweet found that the only factor which favoured Mead Data, was the fact that LEXUS may become so famous that members of the general public who now associate LEXIS or LEXUS with nothing at all may associate it in time with Toyota's automobiles and that Mead's customers may think first of Toyota's car when they hear the word LEXIS. All the other factors, especially the degree of consumer sophistication, weighed heavily against a finding of dilution in this case.

#### (viii) Comments on the "Sweet Test"

According to Taviss, Judge Sweet had instinctively applied the proper emphasis and balance in his analysis.<sup>174</sup> Although some other commentators, like Garcia also find this a well-defined balancing test for determining likelihood of dilution,<sup>175</sup> criticism against the use of the "Sweet Test" is widespread.

McCarthy sees these factors as "the offspring of classical likelihood of confusion analysis".<sup>176</sup> For this reason he finds them not very helpful or relevant to resolve a dilution by blurring claim. In his opinion factors two, three, four and six are not appropriate in a dilution claim and use of this test will therefore "lead to erroneous results". Similarity of products should not be a factor as dilution law traditionally applies in cases where the products are neither competing nor related. Sophisticated customers will not think there is a connection between the products, but will know that there are two

<sup>173</sup> Gilson (1999) § 5.12[1][f][v][A]. The use of this factor was however criticised by the court in *Clinique Laboratories, Inc., v. Dep Corp.*, 945 F. Supp. 547 (S.D.N.Y. 1996), which argued that this factor will always favour the junior user, because his mark will never be famous.

<sup>174</sup> See Taviss (1990) 1474.

<sup>175</sup> Garcia (1995) 506.

<sup>176</sup> McCarthy § 24:94.1.



different sources of goods. Thus, sophistication of customers has little place in a blurring analysis. Blurring occurs in consumers' minds, regardless of the junior user's intent and predatory intent carries for this reason not much weight in a blurring claim. McCarthy believes that the renown of the junior mark "has relevance only because the dilution caused by blurring is more, not less, likely if the junior user has a strong, independent image and reputation for its mark."

Klieger<sup>177</sup> also states that only a few of these factors have any relevance to whether a particular junior use will weaken the selling power of a mark. One point of criticism is against the first two factors, similarity of the marks and similarity of the products, which are used to determine whether there is a mental connection between the two marks, but do not tell whether the selling power of the mark is threatened. In his view consumer sophistication should not play a roll in the determination of the effect on the selling power of the mark. Also, the intent of the junior user to dilute the selling power should bear little relation to the likelihood of dilution. The renown of the senior mark can be used to determine whether a particular mark qualifies for dilution, rather than to determine the likelihood of dilution. The renown of the junior mark is relevant only where the junior use is so prominent that it alone can destroy the selling power of the senior mark.

McCabe, like McCarthy, states that four of these factors, namely the similarity of the products, sophistication of consumers, predatory intent and renown of the junior mark incorporate a likelihood of confusion standard into the dilution enquiry.<sup>178</sup> He, however, feels that they must be considered in the light of the dilution standard and in conjunction with other dilution factors. He criticises the "Sweet Test" for not incorporating the most important factor in determining a dilution claim, namely the mental association made between the two marks. Two of the factors, nevertheless, implicitly evaluate this mental association: the sophistication of the consumers and the predatory intent of the junior

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<sup>177</sup> See Klieger (1997) 826-827 for a more detailed discussion.

<sup>178</sup> McCabe (2000) 1853.



user.<sup>179</sup> In spite of his criticism, he still feels that the creation of a dilution standard “marks an important milestone in the recognition of trade-mark dilution”.

Martino gives credit to Judge Sweet for his “genuine attempt” to establish a coherent framework for testing likelihood of dilution. He, however, criticises this test as it is unclear precisely how each of the factors is to be weighed or applied. He also feels that Judge Sweet failed to distinguish between the concepts of dilution and confusion, as the factors used closely resemble those of the likelihood of confusion test.<sup>180</sup>

According to Taviss,<sup>181</sup> the *Mead Data* case is an illustration of the flaws in modern dilution analysis. He sees both the majority and concurring opinions as further clouding the application of the dilution doctrine. Judicial treatment of the concept remains inconsistent. Despite this criticism, the majority of the “Sweet Factors” are seen as a helpful guide to determine whether there is dilution by blurring.<sup>182</sup>

This decision was followed in other Second Circuit Court of Appeals cases,<sup>183</sup> as well as quite a number of district courts. Some courts also applied these factors to cases under the Federal Trademark Dilution Act.<sup>184</sup> The “Sweet Test” was also however rejected by some courts interpreting the Federal Trademark Dilution Act.<sup>185</sup>

Also in the *Deere v. MTD Products* case,<sup>186</sup> concerning a rarely litigated issue, the Second Circuit Court upheld a dilution-based injunction. This was the first time that the court had to decide whether the use of an altered version of a distinctive trade mark to identify a competitor’s product in comparative advertising, can constitute trade-mark dilution. Deere is the world’s largest supplier of agricultural equipment and has used the

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<sup>179</sup> McCabe (2000) 1853.

<sup>180</sup> Martino (1996) 51-52.

<sup>181</sup> Taviss (1990) 1471, 1474.

<sup>182</sup> Gilson (1999) § 5.12[1][f][v][A].

<sup>183</sup> *Merriam-Webster, Inc. v. Random House*, 35 F.3d 65, 1994 U.S. App. LEXIS 24401, 32 U.S.P.Q.2d (BNA) 1010 (2<sup>nd</sup> Cir. 1994).

<sup>184</sup> McCarthy § 24:94.1. See Chapter 4.10 “Case Law under The Federal Trademark Dilution Act” *infra*.

<sup>185</sup> See the discussion in Chapter 4.10 “Case Law under The Federal Trademark Dilution Act” *infra*.

<sup>186</sup> *Deere & Co. v. MTD Prod., Inc.*, 41 F.3d 39, U.S.P.Q. 2d 1936 (2<sup>nd</sup> Cir. 1994).



DEERE logo as a trade mark for over hundred years. MTD manufactures and sells lawn tractors. They wanted to make an advertisement, identifying Deere as the market leader, but conveying the message that their YARD-MAN tractor was of comparable quality, but less costly than the Deere equivalent. They altered the DEERE logo in such a way that in the advertisement one sees, in an animated version, a deer that appears smaller than a small dog and scampers away from the dog and a lawn tractor, looking over its shoulder in apparent fear. This was done in a humorous, amusing way. Action was brought under, *inter alia*, the New York anti-dilution statute.<sup>187</sup>

Under section 368-d the plaintiff must prove that his trade mark is truly distinctive or has acquired secondary meaning<sup>188</sup> and that there is a "likelihood of dilution". Traditionally, this court has defined dilution either as blurring or as tarnishment. The court believed that the facts in this case did not fit under either of these theories, but stated that these two do not comprise all possible uses that can dilute a mark under the New York statute.<sup>189</sup> Although the court was hesitant about broadening this section to prohibit all uses of a distinctive mark that the owner does not like,<sup>190</sup> promoting sales by poking fun at well-known marks of others could not be allowed. The degree and nature of the alteration must, however, be taken into account. The court concluded that in this case there was "the risk that consumers would likely attribute unfavourable characteristics to the mark and ultimately associate the mark with inferior goods and services."

The *Hormel* case<sup>191</sup> followed shortly afterwards. The appellant relied on the *Deere* case, however, without any success.<sup>192</sup> The appellant, producer of luncheon meat, has a

<sup>187</sup> New York Gen. Bus. Law § 368-d (1984). Violation of § 43(a) of the Lanham Act was also alleged. Common-law claims of unfair competition and unjust enrichment were also filed.

<sup>188</sup> This was not disputed in the case.

<sup>189</sup> Gilson's opinion is that the facts in the *Deere* case seemed to fit in under tarnishment. See Gilson (1999) § 5.12[2][c]. Port (personal comments to the author in May 2000) believes that it rather fits into a separate category, which he calls "imitative dilution". Some scholars also refer to this as "disparagement". See Chapter 3.4.4 "Disparagement or Imitative Dilution" *supra*.

<sup>190</sup> Tolerable uses will be use of an unaltered mark in comparative advertising or parody of a mark for social comment by someone not selling a product. There may be a slight risk of dilution, but it is tolerated in the interest of broad opportunities for expression.

<sup>191</sup> *Hormel Foods Corp. v. Jim Henson Prod., Inc.*, 73 F.3d 497, 37 U.S.P.Q.2d 1516 (2<sup>nd</sup> Cir. 1996).

<sup>192</sup> *Hormel Foods Corp. v. Jim Henson Prod., Inc.*, 73 F.3d 497 at 507, 37 U.S.P.Q.2d 1516 (2<sup>nd</sup> Cir. 1996).



distinctive, widely recognised mark, SPAM. The respondent intended to use a character named "Spa-am" on merchandise related to his film, "Muppet Treasure Island". Appellant sued for trade-mark infringement and dilution. The court denied an injunction on both grounds. Concerning the dilution claim, the court first identified the two elements of a dilution claim under section 368-d, namely ownership of a distinctive mark and a likelihood of dilution. As the mark was extremely strong, the court just had to decide the second enquiry. This can be established through either blurring or tarnishment. The court found that "there is very little likelihood that Henson's parody will weaken the association between the mark SPAM and Hormel's luncheon meat." Thus, there was no blurring. Hormel argued that the image of "Spa-am" as a "grotesque, untidy wild boar would inspire negative and unsavory associations with SPAM luncheon meat."<sup>193</sup> It was, however, found that "Spa-am" was a likeable, positive, not unhygienic character that would not generate any negative associations. This, together with the fact that the parties are not direct competitors and that the parody inheres in the product, led the court to find that there was also not a likelihood of dilution under the tarnishment theory.

#### 4.3.3.2 SEVENTH CIRCUIT CASES

The only state in the Seventh Circuit with a dilution statute is Illinois. The first application of the Illinois Anti-dilution Statute<sup>194</sup> by the Seventh Circuit Court was in *Polaroid Corporation v. Polaroid Inc.*,<sup>195</sup> where it was given broad application. Port regards this case as "the only significant dilution development" between 1930 and 1977.<sup>196</sup> Plaintiff's federally registered trade mark POLAROID is a coined or invented and highly distinctive word that has definitely acquired famous-mark status. It is used on a wide variety of products, such as optical devices, photographic products, television and

<sup>193</sup> *Hormel Foods Corp. v. Jim Henson Prod., Inc.*, 73 F.3d 497 at 507, 37 U.S.P.Q.2d 1516 (2<sup>nd</sup> Cir. 1996).

<sup>194</sup> Ill. Ann. Stat. ch. 140, § 22 (Smith-Hurd 1986).

<sup>195</sup> *Polaroid Corporation v. Polaroid Inc.*, 319 F.2d 830, 1963 U.S. App. LEXIS 4810, 138 U.S.P.Q. (BNA) 265 (7<sup>th</sup> Cir. 1963). The judge said: "We are aware of no Illinois case which has construed this provision."

<sup>196</sup> Port (1995) 530. This comment is in itself remarkable, as Port is a self-declared critic of the dilution concept. See also Lunsford (1973) 48 who declares that the decision is a landmark case on dilution.



other electrical devices in every state and at that stage in some seventy foreign countries. The defendant was a rather small company, specialising in the designing and installation of refrigeration and heating systems. On the unfair competition claim, the majority decision was that it is sufficient to show a likelihood of confusion, especially as the resemblance between the names was so close. This was done by the plaintiff. Proof of competition between the parties was not required and the claim was upheld.

With the regard to the dilution claim, the court referred to the definition of dilution, noting that the injury to the advertising value of the trade mark is not immediate, but inevitably will destroy it. They discerned that dilution is a substantially different action from infringement, requiring not consumer confusion, but rather continuous eroding use of the plaintiff's mark. The court also stressed the fact that POLAROID is a strong, coined name with a widespread reputation and much goodwill. It noted that there were several incidents of confusion between the names, but clearly stated that even without any proof thereof, dilution would still have occurred. The court had clearly taken the dilution provisions at their face value and applied them without reliance on the traditional confusion doctrine.<sup>197</sup> This set a strong precedent for other courts and issued a clear warning for those who think of diluting an existing mark.<sup>198</sup>

Three other decisions by the Seventh Circuit Court during the 1980s resulted in an injunction based solely on the dilution statute.<sup>199</sup> One of these was *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Celozzi-Ettelson Chevrolet Inc.*<sup>200</sup> The court granted injunctive relief against the slogan THE GREATEST USED CAR SHOW ON EARTH, thereby protecting the slogan, THE GREATEST SHOW ON EARTH, registered by the plaintiff as a trade mark. It concluded that the slogan used by the defendant would blur the strong association that the public has between Ringling Brothers' mark and its circus and would cause irreparable harm. The plaintiff started to

<sup>197</sup> Pattishall (1977) 611, who also mentions additional cases. See also McCabe (2000) 1847.

<sup>198</sup> McCabe (2000) 1848.

<sup>199</sup> See Port (1995) 532.

<sup>200</sup> *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Celozzi-Ettelson Chevrolet Inc.*, 855 F.2d 480, 8 U.S.P.Q.2d 1072 (7<sup>th</sup> Cir. 1988).



use this slogan already in 1891 for its circus. The defendant, a well-known Illinois car dealer, erected two signs in 1985 written in big, bold, red circus-style letters with the words THE GREATEST USED CAR SHOW ON EARTH. It is important to note that the entire mark of Ringling Brothers was used, just with the insertion of the words "Used Car". The court found that the plaintiff's slogan, although not coined, was distinctive, due to the duration of its use, the extensive advertising and promotion and the scope of the plaintiff's reputation, which is nationwide. The court also stated that the injury caused by dilution will almost always be irreparable, notwithstanding the fact that it is almost impossible to measure it or convert it into damages. The court also felt that by protecting Ringling Brothers' mark, it would not be granting them a monopoly over other laudatory phrases.

Another fine example, which illustrates the difference between an action based on infringement and one based on dilution, is *Hyatt Corporation v. Hyatt Legal Services*.<sup>201</sup> In the district court the applicant's motion for infringement and unfair competition under the Lanham Act and dilution under the Illinois Anti-Dilution Act was denied. The Court of Appeal confirmed that there was no likelihood of confusion between the term HYATT for legal services and the trade mark HYATT, the service mark of a well-known and well regarded hotel operator, due to the distinct difference in the service offered. The court, however, concluded that the hotel group was entitled to relief for dilution under the Illinois Anti-Dilution Act. The court went actually further than it did in *Polaroid*, because it did not rely on likely confusion as an alternative ground for relief.<sup>202</sup> The court also took a small step towards establishing an analytical framework for determining distinctiveness.<sup>203</sup>

HYATT Hotels at that stage operated about 70 up-market hotels in the United States and had been in business for twenty-five years. In 1977 HYATT Legal Services was established in Ohio, providing basic legal services at reasonable prices. At the time of

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<sup>201</sup> *Hyatt Corporation v. Hyatt Legal Services*, 736 F.2d 1153, 222 U.S.P.Q.2d 669 (7<sup>th</sup> Cir. 1984).

<sup>202</sup> See Gilson (1999) § 5.12[2][d].

<sup>203</sup> Martino (1996) 46.



the trial, their business had already expanded to sixteen states. The court also required the two elements, namely distinctiveness and likelihood of dilution, for a finding of dilution. Although HYATT is a reasonably common name, the court found, after considering several factors,<sup>204</sup> that it had become distinctive for HYATT Hotels. To find dilution the court took notice of two important factors, namely the fact that the marks were similar and that HYATT Legal Services, the defendant and junior user, made extensive use of the name, especially through advertising. The court also found irreparable harm. The court granted a limited remedy and ordered HYATT Legal Services to change its name.<sup>205</sup> Port<sup>206</sup> comments that it seems odd that the court's remedy was based on a confusion approach, although confusion is not a requirement for a dilution claim. The purpose of a dilution claim was thus obfuscated. His opinion is that the name JOEL HYATT LEGAL SERVICES as suggested by the court, would dilute HYATT just as much as HYATT LEGAL SERVICES.

In another Seventh Circuit decision<sup>207</sup> the well-known and famous trade mark BACARDI for rum was enforced against the user of BACARDI for a jewelry business, engaged in the repair and manufacture of jewelry. The district court found for the plaintiff on grounds of federal trade-mark infringement, unfair competition and violation of the Illinois Anti-dilution Statute. The court said that the use of the trade mark by defendant created a likelihood of injury to the plaintiff's business and the distinctive quality of the trade mark, BACARDI, and also caused irreparable damage to their goodwill. This judgment was affirmed by the Seventh Circuit Appeal Court.

<sup>204</sup> The court specifically referred to long-term use, extensive advertising and excellent reputation in the hotel business. There were also no other national or regional businesses, except for defendant, which uses the name "Hyatt". See also Chapter 4.3.1 "Protection and Related Problems" *supra*. Compare the text above for the factors considered in the *Ringling Bros.* case.

<sup>205</sup> The court did not want to be prescriptive in the process of choosing a new name, but indicated that something like "Joel Hyatt Legal Services" would be acceptable. Joel Hyatt was a partner and also a defendant, together with the business. Actually this did not happen and some ten years later the business was still known as HYATT Legal Services. See Port (1995) 533.

<sup>206</sup> Port (1995) 533.

<sup>207</sup> *Bacardi & Co. Ltd. v. Bacardi Mfg. Jewelers Co., Inc.*, 1972 U.S. Dixt. LEXIS 13541, 174 U.S.P.Q. (BNA) 284 (N.D. Ill. 1972), affirmed *per curiam*, 475 F.2d 1406, 1973 U.S. App. LEXIS 10221, 177 U.S.P.Q. 558 (7<sup>th</sup> Cir. 1973). The same court, however, upheld a jury verdict under this statute on the ground that EXXON and EXXENE, used on unrelated products, neither looked nor sounded the same. See *Exxon Corp. v. Exxene Corp.*, 696 F.2d 544, 1982 U.S. App. LEXIS 22955, 217 U.S.P.Q. (BNA)



Another Seventh Circuit decision where the Illinois Anti-dilution Statute was applied, is *The Instrumentalist v. Marine Corps League and the United States Marine Youth Foundation*.<sup>208</sup> This is, however, an example of how the dilution statute should not be applied. The Instrumentalist created and sold a band award known as "The John Philip Sousa Band Award" to high schools. The name and likeness of John Philip Sousa was prominently used on the award certificate. In 1973 they finally got a trade-mark registration on the use of the Sousa name and likeness. The Marine Corps also started with a band award and in 1980 changed the name of their award to the "John Philip Sousa Award for Musical Excellence". After objections from the Instrumentalist they substituted the Sousa-name with "Semper Fidelis", but retained the likeness of Sousa on the front and his name and biography on the back.

The Instrumentalist brought an action in the district court alleging infringement of their trade mark. The court ruled that the Instrumentalist had failed to show a "likelihood of confusion" and therefore had no probability of success on the infringement claim. The court then granted a preliminary injunction based upon the Illinois Anti-dilution Statute, although the plaintiff had not pleaded dilution as a cause of action and the parties had not briefed the court.<sup>209</sup> The court stated that "the similarity between the defendants' 'Semper Fidelis' Award and the Instrumentalist's award had the potential effect of 'diluting' the distinctiveness of the Sousa Award."<sup>210</sup>

The Circuit Court affirmed the ruling of the district court. The court said that the "confusing similarity" of the awards causes the "dilution of the distinctive quality of the [plaintiff's] mark". Furthermore, the court commented that "[t]his definition of 'confusingly similar' goes beyond mere visual similarity and depends more upon the

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215 (7<sup>th</sup> Cir. 1982). The fact that EXXENE was not used as a trade name, also played a role in the decision.

<sup>208</sup> *The Instrumentalist Co. v. Marine Corps League and the United States Marine Youth Foundation Inc.*, 694 F.2d 145, 1982 U.S. App. LEXIS 23832, 216 U.S.P.Q. (BNA) 951 (7<sup>th</sup> Cir. 1982).

<sup>209</sup> Port (1995) 532.

<sup>210</sup> *The Instrumentalist Co. v. Marine Corps League and the United States Marine Youth Foundation Inc.*, 694 F.2d 145 at 149, 1982 U.S. App. LEXIS 23832, 216 U.S.P.Q. (BNA) 951 (7<sup>th</sup> Cir. 1982).



context in which the plaintiff's trademark .... is used.”

#### 4.3.3.3 NINTH CIRCUIT CASES<sup>211</sup>

The Ninth Circuit in the 1981 case of *Toho v. Sears, Roebuck*<sup>212</sup> correctly interpreted the dilution doctrine. The court declared that the focus of the dilution doctrine “is on damage to the mark’s inherent value as a symbol, rather than on whether consumers have been misled as to origin or sponsorship”.

Another notable decision by a state court in a state falling under the Ninth Circuit was the one by the Oregon Supreme Court in *Wedgwood Homes, Inc. v. Lund*,<sup>213</sup> in which the basic principles of the dilution rationale were clearly set out. The plaintiff had already used the name WEDGWOOD for twenty-five years in its home building business, which entailed the development, construction and marketing of single and multiple family residential real estate in eastern Washington County. It then wanted to enjoin defendant’s use of the same word in its business names “Wedgwood Downs” and “Wedgwood Place” for its two dormitory-style retirement apartment complexes in the same county, under the Oregon anti-dilution statute.<sup>214</sup> As the statute does not define either “dilution” or “distinctive quality” the court then gave its own interpretation of these two terms.

It referred to distinctive marks as coined or arbitrary marks or marks that had acquired a secondary meaning. Distinctiveness is also a condition for qualifying as a trademark,<sup>215</sup> but according to the court that “may be different from the distinctive quality deserving of protection from dilution”. The court continued: “the fact that a plaintiff may possess a distinctive tradename only begins our inquiry. The meaning of ‘distinctive quality’ must take shape within the confines of the interests sought to be protected by the anti-dilution

<sup>211</sup> Eleven states and territories, namely Alaska, Arizona, California, Hawaii, Idaho, Montana, Nevada, Oregon, Washington, Guam and Northern Mariana Islands, form the Ninth Circuit.

<sup>212</sup> *Toho Co., Ltd. v. Sears, Roebuck & Co.*, 645 F.2d 788, 210 U.S.P.Q. 547 (9<sup>th</sup> Cir. 1981).

<sup>213</sup> *Wedgwood Homes, Inc. v. Lund* 659 P.2d 377, 222 U.S.P.Q. 446 (Or. Sup. Ct. 1983).

<sup>214</sup> Or. Rev. Stat. § 647.107 (1999). This statute used basically the same wording as the Model State Trademark Bill. See Chapter 4.3.1 “Protection and Related Problems” *supra*.

<sup>215</sup> In this sense a symbol must be so distinctive that it is capable of performing the function of identifying and distinguishing the goods which bear the symbol, to qualify as a trade mark.



statute.”<sup>216</sup> The court then explained the modern function of a trade mark as an advertising agent and referred to its selling power.<sup>217</sup> It explained that this selling power, or “favorable associational value” of the mark in the minds of consumers, is the protectable quality of a mark. It also gave examples of how this attribute may be developed. It then concluded:

“If the mark has come to signify plaintiff’s product in the minds of a significant portion of consumers and if the mark evokes favorable images of plaintiff or its product it possesses the distinctive quality of advertising value – consumer recognition, association and acceptance – and will be entitled to protection from dilution.”

The court thus rejected the argument that only coined or truly famous marks deserve protection from dilution. The important attribute is advertising value and even coined words must develop that over time. Protection can thus be given, regardless of the manner by which a trade mark has become distinctive or even the span of a mark’s fame. Thus, even a mark with a high degree of local fame, such as WEDGWOOD HOMES, can be protected.<sup>218</sup> After a lucid discussion of the meaning of dilution with reference to other cases, the court concluded that dilution of the distinctive quality of the plaintiff’s name was demonstrated. It prevented by injunction the defendant’s use of the name, WEDGWOOD, to prevent the diminution of plaintiff’s name as an advertising tool.

In a more recent decision however, the Ninth Circuit Court found no dilution by the use of FRUIT CUPS on bustiers or the use of FRUIT FLOPS on thongs of the FRUIT OF THE LOOM trade mark as used on underwear.<sup>219</sup> The court found that because the word FRUIT alone was not famous for underwear, the FRUIT OF THE LOOM mark was not

<sup>216</sup> *Wedgwood Homes, Inc. v. Lund* 659 P.2d 377 at 379, 222 U.S.P.Q. 446 (Or. Sup. Ct. 1983).

<sup>217</sup> He relied in this context on the famous passage by Justice Frankfurter in *Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.*, 316 U.S. 203, 62 S. Ct. 1022, 86 L. Ed. 1381, 53 U.S.P.Q. 323 (1942), quoted in Chapter 2.4 “Advertising Function” *supra*, which refers to the “psychological function of symbols” and their “commercial magnetism”.

<sup>218</sup> Compare with the position under the Federal Trademark Dilution Act in Chapter 4.10.3 “Famous Marks” *infra*.

<sup>219</sup> *Fruit of the Loom Inc. v. Girouard* 994 F.2d 1359, 26 U.S.P.Q.2d 1782 (9<sup>th</sup> Cir. 1993).



diluted by defendant's use of the word FRUIT.<sup>220</sup> Port<sup>221</sup> sees this decision as indicative of the courts' normal approach to dilution, which he describes as going as far as possible to avoid applying a dilution statute.

#### 4.3.3.4 ELEVENTH CIRCUIT CASES<sup>222</sup>

The Eleventh Circuit court also showed its appreciation of the need for dilution protection in *Community Federal Savings and Loan Association v. Orondorff*,<sup>223</sup> by endorsing the approach of the Second Circuit in the *Allied* case.<sup>224</sup> The appellant was a federal savings and loan association with a registration for COOKIE JAR and jar design, which was found to be a unique and strong mark. It was used on one of its automatic teller machines. Across the street from the main branch, the respondent used ANNIE'S COOKIE JAR and a jar design with the silhouette of a lady lying on top, on a billboard to advertise its topless go-go bar. The court stated that confusion and competition were not elements of a dilution claim. The court then found that appellant's rights were violated under the Florida Dilution Act,<sup>225</sup> after establishing that there was the "actual or likely whittling away of the unique character of appellant's mark".<sup>226</sup> The court, however, failed to propound a dilution test.<sup>227</sup>

<sup>220</sup> Port (1995) 534 describes this as a "tortured bifurcation" of the FRUIT OF THE LOOM mark. The mark as a whole should be compared to the defendant's mark as a whole.

<sup>221</sup> Port (1995) 534.

<sup>222</sup> The Eleventh Circuit comprises Florida, Georgia and Alabama.

<sup>223</sup> *Community Federal Savings and Loan Association v. Orondorff*, 678 F.2d 1034, 1982 U.S. App. LEXIS 18225; 215 U.S.P.Q. (BNA) 26 (11<sup>th</sup> Cir. 1982). This was one of only four cases decided between 1977 and 1995 where an injunction was sustained solely on the basis of a dilution statute. The other three were discussed in Chapter 4.3.3.2 "Seventh Circuit Cases" *supra*. See also Port (1995) 532.

<sup>224</sup> Discussed in Chapter 4.3.3.1 "Second Circuit Cases" *supra*. See also Taviss (1990) 1460.

<sup>225</sup> Fla. Stat. Ann. § 495.151 (West 1997 & Supp. 2000).

<sup>226</sup> This was a case of tarnishment. Even Port, who is an opponent of the "pure" dilution doctrine, is of the opinion that in cases of tarnishment recovery should be possible if a likelihood of injury to business reputation could be proved. He, however, feels that the evidence in this case was not very strong. See Port (1995) 532.

<sup>227</sup> Martino (1996) 44.



### 4.3.3.5 CONCLUSION

It is clear from the case law discussed above that state courts applying state anti-dilution laws established dilution either by inference from balancing certain factors that they considered relevant, often using the "Sweet Test", or by simply presuming dilution merely based on the similarity of the two marks.<sup>228</sup>

## 4.4 FEDERAL DILUTION PROTECTION BEFORE THE FEDERAL ACT

Dilution protection by federal law only become a reality in January 1996, when the Federal Trademark Dilution Act was adopted.<sup>229</sup> Earlier attempts to grant trade marks federal protection against dilution had failed.<sup>230</sup>

But even in the absence of statutory federal protection against dilution, federal courts in the United States had still implicitly relied upon the dilution doctrine to protect trade marks from dilution under the common law.<sup>231</sup> This treatment, especially in the earlier cases, has contributed substantially to both the development and the substance of the dilution concept.<sup>232</sup> Pattishall records a case in 1925, thus even before Schechter's landmark article, in which the unnamed concept of dilution was used to protect the ROLLS ROYCE trade mark.<sup>233</sup> In many subsequent cases the court found a likelihood of confusion when no likelihood of confusion was actually present. In 1948 in the *Stork* case,<sup>234</sup> for example, the dilution theory was in effect utilised to protect a trade mark, where the likelihood of confusion was slim. The court held that direct competition

<sup>228</sup> See Voss MS "Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Development & Nabisco, Inc. v. PF Brands, Inc." (2000) 15 *Berkeley Technology Law Journal* 265 at 270.

<sup>229</sup> See discussion in Chapter 4.7 "The Federal Trademark Dilution Act of 1995" *infra*.

<sup>230</sup> See *inter alia* the discussion in Chapter 4.5 "The Trademark Law Revision Act of 1998" *infra*.

<sup>231</sup> Pattishall BW, Hilliard DC & Welch JN *Trademarks and Unfair Competition* (1994) Matthew Bender & Co. Incorporated New York & Oakland § 8.01 349.

<sup>232</sup> See Chapter 3.1 "The Development of Dilution as a Legal Concept" *supra*.

<sup>233</sup> Pattishall (1994) § 8.01 349; *Wall v. Rolls-Royce of America*, 4 F.2d 333, 334 (3<sup>rd</sup> Cir. 1925). The ROLLS ROYCE trade mark, renowned for its use on automobiles, was protected against its use on radio tubes. See further the discussion in Chapter 3.1 "The Development of Dilution as a Legal Concept" *supra*.

<sup>234</sup> *Stork Restaurant, Inc. v. Sahati*, 166 F.2d 348, 1948 U.S. App. LEXIS 3355, 76 U.S.P.Q. (BNA) 374 (9<sup>th</sup> Cir. 1948).



between the parties was not necessary for a finding of unfair competition. They found that the use by the respondent of the name STORK CLUB for his small bar in San Francisco, California, justified an injunction on the basis of likelihood of confusion. The appellant owned and operated an expensive, up-market, well-known and well-publicised night club in New York, named THE STORK CLUB, which has acquired a widespread and valuable reputation. It was noted that this name was fanciful and truly arbitrary and therefore especially entitled to protection. The court referred to the law as set out in *Yale Electric Corporation v. Robertson*,<sup>235</sup> where it was said that a merchant may have a "sufficient economic interest" outside his own field of exploitation. It then found that this was a clear case where a junior user was seeking to ride on the prestige of the senior user's mark. The court then defined confusion of source, where there is no direct competition, as a misleading of the public by the use of the mark for the purpose of securing some of the goodwill of the trade mark or trade name.<sup>236</sup>

In 1961 the Second Circuit Court in *Polaroid Corp. v. Polarad Electronics Corp.*<sup>237</sup> was the first to formulate certain factors that could be applied to determinate whether a likelihood of confusion exists in the case of non-identical goods or services.<sup>238</sup> The court said that among other factors, the following should be taken into account:

"the strength of [the plaintiff's] mark, the degree of similarity between the two marks, the proximity of the products, the likelihood that the prior owner will bridge the gap, actual confusion, and the reciprocal of defendant's good faith in adopting its own mark, the quality of defendant's product, and the sophistication of the buyers."

These *Polaroid* factors, although first formulated to determine the likelihood of confusion between non-identical goods, are now utilised by United States Courts in all likelihood of

<sup>235</sup> *Yale Electric Corporation v. Robertson*, 26 F.2d 972 (2<sup>nd</sup> Cir. 1928). See further Chapter 3.1 "The Development of Dilution as a Legal Concept" *supra*.

<sup>236</sup> This *Stork Club* doctrine was also subsequently applied by the 3<sup>rd</sup> Circuit in the case of *Ambassador East v. Orsatti, Inc.* 257 F.2d 79, 48 TMR 1251 (3<sup>rd</sup> Cir. 1958). See Pattishall (1963) 613.

<sup>237</sup> *Polaroid Corp. v. Polarad Electronics Corp.*, 287 F.2d 492 at 495; 1961 U.S. App. LEXIS 5191; 128 U.S.P.Q. (BNA) 411; 4 Fed. R. Serv. 2d (Callaghan) 81 (2<sup>nd</sup> Cir. 1961). See short discussion of these and other cases in Vuk (1998) 872-873 fn 48.

<sup>238</sup> Pattishall (1994) §6.02 234.



confusion cases, including cases involving identical goods. Also, all United States Circuit Courts have adopted similar factors to determine the likelihood of confusion.<sup>239</sup>

In *Quality Inns Int'l v. McDonald's Corp.*,<sup>240</sup> the Maryland court protected the McDONALD's trade mark by finding likelihood of confusion when there was not really evidence of likelihood of confusion. Although the court thus found trade-mark infringement and unfair competition, it implicitly relied on dilution.<sup>241</sup> Quality Inns planned to market a chain of economy hotels under the name McSLEEP INN. The McDonald's Corporation immediately reacted, as they believed that this name would infringe upon their "Mc" trade marks.<sup>242</sup> Quality Inns then asked the court for a declaratory judgment that they will not infringe the "Mc" trade marks and the McDonald' Corporation then initiated counterclaims alleging trade-mark infringement and unfair competition. In addition they alleged dilution in violation of the Illinois Anti-Dilution Act.<sup>243</sup>

The court noted that the products were in different markets and the trade names would, for this reason, normally not cause confusion.<sup>244</sup> The court, nevertheless, concluded that the McSLEEP trade mark would infringe upon McDONALD's trade marks due to the likelihood of confusion between the two marks and because of dilution. The court never analysed or discussed the dilution statute, but in the end just stated that dilution had also occurred under the Illinois statute. Probably because no federal dilution statute was in place, the court hid their decision behind a finding of confusion.<sup>245</sup>

Another example of a federal court granting protection to a trade mark where there was not really a likelihood of confusion, is to be found in *Dallas Cowboys Cheerleaders v.*

<sup>239</sup> Vuk (1998) 873 fn 48.

<sup>240</sup> *Quality Inns Int'l v. McDonald's Corp.*, 695 F.Supp. 198 (D. Md. 1988).

<sup>241</sup> Vuk (1998) 900, quoting from a Trademark Law Lecture by Professor Hugh Hansen at Fordham University School of Law (Fall 1996).

<sup>242</sup> The McDonald's Corporation owns quite a number of trade marks, such as McChicken, McMuffin, McCola, McFeast and McPizza.

<sup>243</sup> Ill. Ann. Stat. ch. 140, § 22 (Smith-Hurd 1986).

<sup>244</sup> Quality Inns also presented survey evidence to the court, which showed that there existed no likelihood of confusion between the marks. See Vuk (1998) 901 fn 226 for details of this survey.

<sup>245</sup> Vuk (1998) 900 fn 223, again referring to the interpretation of Professor Hansen.



*Pussycat Cinema*.<sup>246</sup> The court granted protection to the Dallas Cowboys Cheerleaders' trade mark from use in a pornographic movie. The Dallas Cowboys Cheerleaders are a squad of girls that performs dance and cheerleading routines at the games of the American football team, the Dallas Cowboys. Apart from that, they also make national television and public appearances and license others to distribute items like posters, calendars and T-shirts with the cheerleaders portrayed on them. The cheerleaders always wear their distinctive white and blue outfits: white boots, white shorts, blue blouse and white star-studded vest and belt. The Pussycat Cinema, a New York corporation which owns a cinema in New York City, then began to show a pornographic movie, called DEBBIE DOES DALLAS. In the movie, Debbie was chosen as a cheerleader for the Texas Cowgirls. She needed money to go to Dallas and then she and her fellow cheerleaders engaged in sexual acts to raise money. At the end of the movie, Debbie was shown dressing herself in an outfit resembling those of the Dallas Cowboys Cheerleaders and again was involved in various sexual acts.

The plaintiff instituted an action alleging trade-mark infringement under section 43(a) of the Lanham Act, as well as unfair competition and dilution in violation of section 368-d of the New York General Business Law. The District Court<sup>247</sup> found for the plaintiff on all these grounds. With regard to the dilution claim, the court only set forth the definition and rationale and then stated that there was clearly dilution in this case as the continued use of the uniform in the pornographic movie would dilute and whittle down the trade mark's reputation and goodwill.

On appeal, the Second Circuit Court affirmed this ruling.<sup>248</sup> Although plaintiff did not have a registered trade mark, the court found that plaintiff had a trade mark in its uniform. The court rejected the defence of the defendant, that the Lanham Act only gives protection against uses that cause confusion as to origin, as being too narrow an

<sup>246</sup> *Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, 604 F.2d 200, 203 U.S.P.Q. 161 (2<sup>nd</sup> Cir. 1979). See the discussion of the case in Vuk (1998) 902-903.

<sup>247</sup> The United States District Court for the Southern District of New York. *Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, 467 F.Supp. 366 (S.D.N.Y. 1979).

<sup>248</sup> *Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, 604 F.2d 200, 203 U.S.P.Q. 161 (2<sup>nd</sup> Cir. 1979).



interpretation. The court noted that if the public perceives that the trade-mark owner sponsored or approved the use of the trade mark by another person, it will be enough to satisfy the confusion requirement. It was clear to the court that the public, by seeing the uniform used in Debbie Does Dallas, would be reminded of the Dallas Cowboys Cheerleaders and would associate them with the movie. The court then held that this mental association would result in confusion, which would injure the Dallas Cowboys Cheerleaders' reputation. They remarked: "The trademark laws are designed not only to prevent consumer confusion but also to protect the synonymous right of a trademark owner to control his product's reputation."<sup>249</sup> Like the District Court, the Second Circuit Court did not discuss the dilution concept. They merely noted in a footnote that if the plaintiff had not established a likelihood of confusion, it would have been entitled to relief under the New York dilution law.

Many scholars campaigned for the enactment of statutes prohibiting dilution in the remaining states, but even more for a federal dilution statute.<sup>250</sup> Pattishall, for example, proposed a provision following the language of the Model State Trademark Bill, but without the "injury to business reputation" provision, which he considered as inappropriate.<sup>251</sup> He also opted for broader relief rather than only injunctive relief.

#### 4.5 THE TRADEMARK LAW REVISION ACT OF 1988

In 1988 extensive amendments were made to the Lanham Act by the Trademark Revision Act<sup>252</sup> after a thorough review of the United States trade-mark law.<sup>253</sup> The most important change was the inclusion of an intent to use basis for applications for

<sup>249</sup> *Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, 604 F.2d 200 at 205, 203 U.S.P.Q. 161 (2<sup>nd</sup> Cir. 1979).

<sup>250</sup> See for example Pattishall (1984) 309; Pattishall (1977) 623.

<sup>251</sup> See Chapter 4.3.1 "Protection and Related Problems" *supra*. See also Pattishall (1977) 623.

<sup>252</sup> Pub. L. 100-667, 102 Stat. 3935. The Trademark Law Revision Act was enacted on November 16, 1988 and commenced operation exactly one year later.

<sup>253</sup> Garcia (1995) 492. This review, which culminated in the *Report and Recommendations on the United States Trademark System and the Lanham Act* ((1987) 77 *The Trademark Reporter* 375), was performed by the Trademark Review Commission (TRC), a private committee established by the United States Trademark Association. See Denicola (1996) 88; Klieger (1997) 835-839. McCarthy (1996) § 5:9



registration.<sup>254</sup> The changes to section 43, which deals with infringement, included a broader cause of action for misrepresentation in false advertising claims and full access to all statutory Lanham Act remedies.<sup>255</sup> A further proposed amendment to section 43(a) would have prohibited the use of a mark or any other conduct “likely to disparage or tarnish the mark of another”.<sup>256</sup> Influenced by the perceived inadequacy of state dilution laws and the need for national uniformity, Congress also attempted to include federally recognised protection against dilution in a separate section of the Act, namely section 43(c). According to Denicola this separation of the tarnishment and dilution of distinctiveness theories was not an accident.<sup>257</sup> The reasoning of the Trademark Revision Commission was that tarnishment is “less dilution than injury to reputation”.<sup>258</sup> In terms of the proposed section 43(c), protection against dilution would only be afforded to famous trade marks. Although the Senate supported the inclusion of the provision, the House of Representatives was opposed to such expansion of trade-mark rights. They fear that the proposed section would infringe upon advertisers’ First Amendment rights pertaining to freedom of speech. They were influenced by strong opposition from the advertising, publishing and broadcasting industries.<sup>259</sup> After a last minute compromise between the Senate and the House of Representatives the Trademark Revision Act was passed but without both the tarnishment and dilution provisions.<sup>260</sup>

#### 4.6 RESTATEMENT (THIRD) OF UNFAIR COMPETITION (1995)

During the drafting of the Restatement<sup>261</sup> by the American Law Institute (ALI), the proper interpretation of state dilution statutes was on the table. It appeared that the merits of dilution protection was a controversial subject, with academic members of the Institute

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describes the changes made by this Act as “the most sweeping changes to the Lanham Act” since its enactment.

<sup>254</sup> See Chapter 4.1 “American Statutory Trade-Mark Law prior to 1947” *supra*.

<sup>255</sup> Taviss (1990) 1454; McCarthy (1996) § 5:9.

<sup>256</sup> Denicola (1996) 89.

<sup>257</sup> Denicola (1996) 89.

<sup>258</sup> See Denicola (1996) 89 and references to the TRC Report cited there.

<sup>259</sup> Vuk (1998) 904; Gilson (1999) § 5.12[1][b]; Port (1995) 525; McCabe (2000) 1855.

<sup>260</sup> Garcia (1995) 492. See also McCarthy (1998) 587-588; Denicola (1996) 89; Klieger (1997) 837-838.

<sup>261</sup> § 25, titled “Liability Without Proof of Confusion: Dilution and Tarnishment,” is the relevant section. See Denicola (1996) 87.



being generally opposed to the notion and trade-mark practitioners being generally supportive of it.<sup>262</sup> Under section 25(2) non trade-mark use, for instance to comment on, criticise, ridicule, parody or disparage, is not actionable under the dilution action. Proponents of the federal legislation, in contrast, claim that the Federal Act of 1995<sup>263</sup> encompasses all forms of dilution, including disparagement.<sup>264</sup>

#### 4.7 THE FEDERAL TRADEMARK DILUTION ACT OF 1995<sup>265</sup>

This law represents in the words of Professor J. Thomas McCarthy “a radical and fundamental break with prior federal trademark law”.<sup>266</sup> Port describes it as “the broadest and least legitimate congressional expansion of the trademark right”.<sup>267</sup> One of the aims of this law was to harmonise dilution protection among the states by providing consistency, clarity and a uniform level of protection for all federal claims.<sup>268</sup> This federal protection against dilution was introduced in 1995, when the United States Congress passed the Federal Trademark Dilution Act.<sup>269</sup> This Act, which amended the Lanham Act, was signed into law by President Clinton on 16 January 1996, with immediate effect.<sup>270</sup> The International Trademark Association (INTA) was a strong force behind the enactment of this legislation. It was also supported by the American Bar Association (ABA), American Intellectual Property Law Association (AIPLA), Patent and Trademark Office (PTO) and industry groups.<sup>271</sup> The strongest arguments in favour of the Act were based on considerations of foreign trade. The lack of federal dilution

<sup>262</sup> Denicola (1996) 87.

<sup>263</sup> See following section.

<sup>264</sup> See Denicola (1996) 88 and his criticism of the Federal Trademark Dilution Act discussed *infra*.

<sup>265</sup> Port (personal comments to the author in May 2000) also referred to it as “The Trademark Lawyer Employment Act of 1995”. See also Port (2000) 874.

<sup>266</sup> McCarthy (1998) 587.

<sup>267</sup> Port (2000) 874.

<sup>268</sup> Belongia (2002) 1172; Ruwe, K “The Federal Trademark Dilution Act: ‘Actual Harm’ or ‘Likelihood of Dilution?’” (2002) 70 *University of Cincinnati Law Review* 1175 at 1177; Kostello DL “Grappling With the Limits of Fame under the FTDA – Do Marks Famous only in a Niche Market or Limited Geographic Area Qualify for Protection?” (2001) 91 *The Trademark Reporter* 1133; Lee (2002) 692.

<sup>269</sup> Federal Trademark Dilution Act of 1995, Pub. L. No. 104-98, 109 Stat. 985 (1995) (codified as amended at 15 USC § 1125, 1127 (West 1996)).

<sup>270</sup> Vuk (1998) 865, 905; Gilson (1999) § 5.12[1][a]; Seitz (1999) 117; Denicola (1996) 83.

<sup>271</sup> McCarthy (1998) 588. But see Port (1995) 525-575 who expressed his strong opposition to a federal dilution statute.



relief damaged negotiations by the United States in forging the General Agreement on Tariffs and Trade (GATT). Other countries used this lack of federal relief as an excuse for their own shortcomings, thus frustrating the negotiations.<sup>272</sup> There was also fear that limiting the Act to federally registered trade marks would undercut the United States' position in relation to its trading partners.<sup>273</sup>

The following subsection, virtually the same as the draft proposed by the Trademark Review Commission in 1987,<sup>274</sup> was added to § 43:

“(c)(1) The owner of a famous mark shall be entitled, subject to the principles of equity and upon such terms as the court deems reasonable, to an injunction against another person’s commercial use in commerce of a mark or trade name, if such use begins after the mark has become famous and causes dilution of the distinctive quality of the mark, and to obtain such other relief as is provided in this subsection...”<sup>275</sup>

Thus, the plaintiff must be the owner of a famous mark. Defendant must make commercial use of plaintiff’s mark in interstate commerce, because only the use of the mark by another as a trade mark for that person’s own products can lessen the capacity of the mark to identify and distinguish the goods and services of the trade-mark owner.<sup>276</sup> Defendant’s use must begin after the plaintiff’s mark became famous and must cause dilution of the mark’s capacity to identify and distinguish goods. Both the substantial investment of the owner of the mark and the commercial value and aura of the mark are recognised and protected from those who would appropriate it for their own gain.<sup>277</sup>

<sup>272</sup> McCabe (2000) 1855; Belongia (2002) 1172.

<sup>273</sup> See Denicola (1996) 84 for these and other concerns raised during the debates that led to the enactment of the Federal Trademark Dilution Act.

<sup>274</sup> “The United States Trademark Association Trademark Review Commission Report and Recommendations” (1987) 77 *The Trademark Reporter* 375.

<sup>275</sup> Lanham Act § 43(c), 15 USC § 1125(c).

<sup>276</sup> See definition of dilution in § 45 discussed in Chapter 4.7.1 “Definition of Dilution in the Act” *infra*. See also McCarthy (1998) 588; Denicola (1996) 90.

<sup>277</sup> HR Rep No 104-373, 3 (1995).



There are several key differences from state dilution laws. Firstly, protection is given only if the junior user's use began "after the mark has become famous",<sup>278</sup> thus requiring fame and not just distinctiveness for protection.<sup>279</sup> Secondly, the Federal Act uses the language "causes dilution" and not "likelihood of dilution".<sup>280</sup> In the third place, dilution is expressly defined in terms of the trade mark's capacity to "identify and distinguish goods or services",<sup>281</sup> thus, specifically describing the harm caused by dilution.<sup>282</sup> State dilution laws and decisions and also federal decisions before 1996, apparently giving protection against dilution, will, in spite of these differences, be extremely important in the interpretation of the Federal Trademark Dilution Act.<sup>283</sup>

As only famous trade marks benefit from this law, the section continues to give a list of factors, which may be considered by a court in determining whether a mark is distinctive and famous.<sup>284</sup> In order to receive protection under the Act, these criteria must be met. Denicola argues that in the light of the Act's limitation to famous marks, the Act is only applicable in cases where there is blurring. The argument goes that tarnishment and disparagement can also take place in the case of weak marks.<sup>285</sup> According to the House Report, accompanying the Act, dilution "is designed to encompass all forms of dilution recognized by the courts, including dilution by blurring, dilution by tarnishment and disparagement, and by diminishment."<sup>286</sup>

<sup>278</sup> There was one district case which dealt with the timing of the fame inquiry, namely *The Network Network v. CBS, Inc* 54 U.S.P.Q.2d 1150 (C.D. Cal. 2000). The court stressed that the junior user's first commercial use must be proven to be after the time that the plaintiff's mark achieved fame.

<sup>279</sup> McCabe (2000) 1858. Discussion in Chapter 4.10.3 "Famous Marks" *infra*.

<sup>280</sup> See Klieger (1997) 840; Marroletti W "Dilution, Confusion, or Delusion? The Need for a Clear International Standard to Determine Trademark Dilution" (1999) 25 *Brooklyn Journal of International Law* 659 at 677; Kim (2001) 729, 735. See in depth discussion in Chapter 4.10.4 "Likelihood of Dilution vs Actual Dilution" *infra*.

<sup>281</sup> Voss (2000) 270; Lee (2002) 703. Compare Seitz (1999) 117-118.

<sup>282</sup> Lanham Act § 45, 15 USC § 1127. See Chapter 4.7.1 "Definition of Dilution in the Act" *infra* and Marroletti (1999) 677.

<sup>283</sup> Gilson (1999) § 5.12[1][b].

<sup>284</sup> This will be discussed in Chapter 4.7.2 "Discussion of the Different Factors" *infra*.

<sup>285</sup> Denicola (1996) 90.

<sup>286</sup> HR Rep No 104-373, 8 (1995). See also Schwartz and Morfesi (1997) 445. Nevertheless, the Supreme Court of Appeal in *Moseley v. V Secret Catalogue, Inc.*, 123 S. Ct. 1115 at 1124 (2003) questioned the scope of the Federal Act. The Court said that the state statutes expressly refer to both "injury to business reputation" and to "dilution of the distinctive quality of a trade name or trade mark", thus respectively tarnishment and blurring. The FTDA only refers to the latter and thus arguably supports a



The first version of the Act introduced to Congress, made provision for the protection of famous, *federally-registered* marks. This version was later broadened as a result of concerns raised by the Administration. The Administration argued that if protection would only be given to federally-registered marks, the United States' position that famous marks should be protected regardless of whether they are registered in the country where protection is sought, would be weakened.<sup>287</sup> This was a new direction, which was not the subject of extensive debate or investigation. Probably the Act's application to unregistered marks will be quite rare, since most famous marks are already registered.<sup>288</sup> From the discussions that led to the acceptance of the Act, it was clear that Congress sees it as a means to secure better protection for famous trade marks of United States companies in foreign countries.<sup>289</sup>

#### 4.7.1 DEFINITION OF DILUTION IN THE ACT

Dilution is defined in the Act as "the lessening of the capacity of a famous mark to identify and distinguish goods or services, regardless of the presence or absence of (1) competition between the owner of the famous mark and other parties, or (2) likelihood of confusion, mistake, or deception."<sup>290</sup>

An important part of the definition is the phrase "to identify and distinguish goods and services". This phrase is taken from the definition of a trade mark in section 45 of the Lanham Act and can be summed up in the word "distinctiveness" according to Gilson.<sup>291</sup> If the distinctiveness of the famous mark is lessened, then the chance of finding dilution is good. This can be done by different kinds of trade-mark uses, such as blurring,

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narrower reading. This view is supported by Higgins JR & Duvall SA "The FTDA after *Moseley v V.Secret*" (2003) 93 *The Trademark Reporter* 813 at 823.

<sup>287</sup> Gilson (1999) § 5.12[1][c]; Denicola (1996) 83-84; Klieger (1997) 845.

<sup>288</sup> This is the viewpoint of Gilson (1999) § 5.12[1][c].

<sup>289</sup> Gilson (1999) § 5.12[1][c].

<sup>290</sup> Lanham Act § 45, 15 USC § 1127.

<sup>291</sup> Gilson (1999) § 5.12[1][c][i]. See Chapter 4.10.2 "Distinctiveness" *infra*.



tarnishment and disparagement.<sup>292</sup> The court in the *Ringling Bros. v. Utah* case,<sup>293</sup> however, arrived at a different interpretation. It saw the phrase “the lessening of the capacity of a famous mark, to identify and distinguish goods and services” as a perfectly clear indication that the Act’s aim is to protect the mark’s selling power, rather than its distinctiveness as such.

The last part of the definition makes it clear that neither competition, nor likelihood of confusion, is necessary to find dilution. This even goes beyond the Schechter doctrine, as he only saw the concept as applying to non-competing goods. However, as the Act indicated, it is true that if a junior user uses a mark similar to that of a senior user on a competing product, a consumer may recognise the slight differences between the marks and not be confused about the source of the junior user’s product, but the senior mark is nevertheless diluted by the unauthorised use.

The most important requirement of the definition is, however, that the trade mark must be “famous”.<sup>294</sup> The Act as drafted, gives protection to famous trade marks, if the other person’s use causes “dilution of the distinctive quality of the mark”. The Act continues to list factors, which can be used to determine “whether a mark is distinctive and famous”.

The factors listed in section 43(c)(1) of the Federal Trademark Dilution Act for determining trade-mark distinctiveness and fame, are phrased as follows:

“In determining whether a mark is distinctive and famous, a court may consider factors such as, but not limited to

(A) the degree of inherent or acquired distinctiveness of the mark;

<sup>292</sup> For a detailed discussion of these different theories of dilution, see Chapter 3.4 “Types of Dilution” *supra*. Denicola (1996) 89-90 argues that the Federal Trademark Dilution Act only encompasses blurring. He based his assumption on the history of the dilution section. See also Chapter 4.5 “The Trademark Law Revision Act of 1998” *supra*.

<sup>293</sup> *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Development* 170 F.3d 449 at 458, 1999 U.S. App. LEXIS 4179, 50 U.S.P.Q.2d 1065 (4<sup>th</sup> Cir. 1999). See further the discussion in Chapter 4.10.4 “Likelihood of Dilution vs Actual Dilution” *infra*.

<sup>294</sup> See the discussion in Chapter 4.10.3 “Famous Marks” *infra*.



- (B) the duration and extent of use of the mark in connection with the goods or services with which the mark is used;
- (C) the duration and extent of advertising and publicity of the mark;
- (D) the geographical extent of the trading area in which the mark is used;
- (E) the channels of trade for the goods or services with which the mark is used;
- (F) the degree of recognition of the mark in the trading areas and channels of trade of the mark's owner and the person against whom the injunction is sought;
- (G) the nature and extent of use of the same or similar marks by third parties; and
- (H) the existence of a registration under the Act of March 3, 1881, or the Act of February 20, 1905, or on the principal register."

As stated by the Act, this list is not exhaustive. These factors are not completely new and have been used in relation to other trade-mark issues in the past. What is expected of the courts is to weigh all these factors and to try to find a balance. Each case will have to be decided on its own merits.<sup>295</sup>

#### 4.7.2 DISCUSSION OF THE DIFFERENT FACTORS

The first factor refers to the inherent or acquired distinctiveness of the mark, and thus leaves room for marks to acquire secondary meaning and in that way to develop into distinctive marks. As distinctiveness is a requirement for federal registration, marks federally registered would be regarded as distinctive from the outset. To prove fame consumer surveys may be helpful, or courts could even take judicial notice of the fact.<sup>296</sup> It is, however, not clear whether distinctiveness for dilution purposes is the same as distinctiveness for confusion purposes. The courts interpreting the state dilution statutes mostly suggested that a stricter distinctiveness threshold is required in dilution cases than in confusion cases.<sup>297</sup>

The second and third factors mention the duration and extent of use and of advertising and publicity of the mark. In general, famous marks will already have been used for

<sup>295</sup> Gilson (1999) § 5.12[1][c][iii].

<sup>296</sup> Gilson (1999) § 5.12[1][c][iii].

<sup>297</sup> Klieger (1997) 843. See the discussion of "distinctiveness" in cases under the Federal Trademark Dilution Act in Chapter 4.10.2 "Distinctiveness" *infra*.



some time and there will be proof of widespread advertising campaigns and publicity. It is, however, possible for a mark to become famous almost “overnight”. But in practice these two factors offer little concrete guidance to courts. This creates an unrestrained discretion for courts.<sup>298</sup>

Regarding the geographical extent of the trading area, it would probably be required that the mark is used throughout a substantial portion of the United States. This was confirmed by the House Report.<sup>299</sup> As there is no exact indication of what the extent of use must be, a case-by-case approach will be awaited.<sup>300</sup> In the *Star Markets* case it was held that use in only one state is not enough, while use in five states for ninety years has been held sufficient in *Wawa v. Haaf*.<sup>301</sup>

The next two factors have to do with the channels of trade and trading areas and the degree of recognition of the mark in these channels. These factors are more suitable to determine whether consumers will make the requisite mental connection between the two marks than to determine fame.<sup>302</sup> It is, however, quite certain that the better the plaintiff’s mark is known in the defendant’s trading areas, the greater the likelihood that the distinctive quality of the mark will be negatively affected.<sup>303</sup> A mark that is only famous to a sub-group of consumers, is thus protectable against dilution only in that particular sub-market. This was seen in the LEXIS/LEXUS case,<sup>304</sup> decided under the New York dilution law, and would probable serve as example to courts applying the federal law. LEXIS was only famous in the narrow market of attorneys and accountants and only about 1% of the general public recognised the mark. The court concluded that LEXIS has no distinctive quality that LEXUS would dilute. The degree of recognition of

<sup>298</sup> Klieger (1997) 843.

<sup>299</sup> HR Rep No 104-373, 7 (1995).

<sup>300</sup> Gilson (1999) § 5.12[1][c][iii]; McCarthy (1998) 596.

<sup>301</sup> *Star Markets, Ltd. v. Texaco, Inc.* 950 F.Supp. 1030 (D. Haw. 1996); *WAWA Inc. v. Haaf*, 40 U.S.P.Q.2d (BNA) 1629 (E.D. Pa. 1996). See the discussion of these and other cases in Chapter 4.10.3 “Famous marks” *infra*. The House Report refers to a substantial part of the United States rather than to a substantial number of states.

<sup>302</sup> Klieger (1997) 844.

<sup>303</sup> See McCarthy (1998) 596-597 and examples used there.

<sup>304</sup> *Mead Data Central Inc. v. Toyota Motor Sales, U.S.A., Inc.*, 875 F.2d 1026, 10 U.S.P.Q.2d 1961 (2<sup>nd</sup> Cir. 1989), discussed in Chapter 4.3.3.1 “Second Circuit Cases” *supra*.



the plaintiff's mark desired by the court would thus be recognition amongst a significant percentage of the defendant's market.

The nature and extent of use of the same or similar marks by third parties are also mentioned as a factor. This makes sense, because the more the mark is used by third parties on a variety of goods, the lesser will be its fame for plaintiff's goods.<sup>305</sup> This factor is also used in traditional infringement cases to determine the strength of the mark.

The last factor, referring to federal registration, is proof of the distinctiveness of the mark, but does not necessarily lead to proof of fame, as already indicated.<sup>306</sup> Although federal registration is not a requirement, as the Act applies to both registered and unregistered marks, this factor surely encourages federal registration. Federal registration is also encouraged by section 43(c)(3), which provides that the owner of a federal registration has an absolute defence against any claim brought under state or common law.

Furthermore, it must be kept in mind that not-yet-famous trade marks could still be protected in terms of state dilution laws, which do not require fame as a prerequisite for protection.

#### **4.7.3 EXCEPTIONS TO LIABILITY<sup>307</sup> UNDER THE ACT**

Three exceptions are mentioned in section 43(c)(4). The first one makes fair use of a famous mark in comparative advertising non-actionable. This means that fair, non-confusing, truthful use of another's trade mark in, for example, product comparisons will be allowed. This is actually not a new exception to infringement in general, but is still welcomed as it creates certainty in the area of dilution infringement. McCarthy uses the example of a hypothetical fast food company called Bay Burgers. If they put up a sign

<sup>305</sup> Klieger (1997) 844; Gilson (1999) § 5.12[1][c][iii].

<sup>306</sup> Klieger (1997) 845.

<sup>307</sup> For a more extensive discussion of these exceptions, see Gilson (1999) § 5.12[1][c][vi].



which says "Better burgers. Faster Service than Burger Queen", it constitutes fair comparative advertising and there will be no dilution of the BURGER QUEEN trade mark.<sup>308</sup>

Gilson<sup>309</sup> mentions the second exception of "non-commercial use of a mark" as the most important of the three, while McCarthy<sup>310</sup> regards it as redundant in view of the requirement in section 43(c)(1) that the use of the defendant must be "commercial use".<sup>311</sup> However, as a result of this provision the use of a famous trade mark in non-commercial speech, such as parodies,<sup>312</sup> consumer product reviews, even if unfavourable, news and investigation reports will be absolutely legal. These forms of speech are thus constitutionally protected under section 43(c).<sup>313</sup>

This issue came under scrutiny in the Ninth Circuit Court in the case of *Dr. Seuss Enterprises v. Penguin Books USA*.<sup>314</sup> A book about the OJ Simpson trial, published by Penguin Books, mimicked the distinctive style of the Dr. Seuss children's books. The plaintiff's argument was that its mark was used to make the book more entertaining and to sell more copies. Therefore, it argued, it cannot fall within the non-commercial use exception for parodies. The court rejected this and found that this use was exempted from the Federal Act.<sup>315</sup>

<sup>308</sup> McCarthy (1998) 598. See also Denicola (1996) 91.

<sup>309</sup> Gilson (1999) §5.12[1][c][vi].

<sup>310</sup> McCarthy (1998) 598 fn 59.

<sup>311</sup> Compare however the discussion of the *Mattel* case in the text *infra*.

<sup>312</sup> See Swann JB & Davis TH "Dilution, an Idea Whose Time has Gone; Brand Equity as Protectable Property, the New/Old Paradigm" (1994) 84 *The Trademark Reporter* 267 at 288-298. See too Martino (1996) 62 fn 64 for a list of articles written on the topic of parodies and First Amendment rights.

<sup>313</sup> They are protected in the same way under § 43(a).

<sup>314</sup> *Dr. Seuss Enterprises v. Penguin Books USA, Inc.*, 924 F.Supp. 1559 (S.D. Cal. 1996), *affd.* 109 F.3d 1394, 42 U.S.P.Q.2d 1184 (9<sup>th</sup> Cir. 1997).

<sup>315</sup> Compare this decision to the one in *Planned Parenthood Federation of America, Inc. v. Bucci*, 42 U.S.P.Q.2d 1430 (S.D.N.Y. 1997), where the court rejected the defendant's argument of non-commercial speech. The defendant, an anti-abortion activist, registered the domain name "plannedparenthood.com" and used the web site to promote an anti-abortion book. On the web site the words "Welcome to the PLANNED PARENTHOOD HOME PAGE" appeared. The plaintiff, a well-known reproductive health care organisation and owner of the registered trade mark PLANNED PARENTHOOD, objected. The promotion of the book was clearly a commercial activity and the defendant also requested contributions for his activities. His activities also harmed the plaintiff commercially.



The case of *Mattel v. MCA Records*<sup>316</sup> also shed more light on the judicial application of this exception. The well-known toy manufacturer brought suit against the music companies for *inter alia* trade-mark dilution. Aqua, a Danish band produced the song BARBIE GIRL on their album *Aquarium*. There was no doubt that MCA uses Mattel's mark and that the song pokes fun at Barbie. The court acknowledged that BARBIE qualifies as a famous and distinctive trade mark and became famous long before MCA started to market the BARBIE GIRL song. There was also "commercial use in commerce". The court then stated that MCA's use of the mark clearly amounts to dilution by blurring. The court then discussed the "non-commercial use" exemption. The court said that "[i]f the term 'commercial use' had the same meaning in both provisions, this would eliminate one of the three statutory exemptions defined by this subsection, because any use found to be dilutive would, of necessity, not be non-commercial."<sup>317</sup> The court then looked at the legislative history of the Federal Act and came to the conclusion that "non-commercial use" refers to a use that "consists entirely of non-commercial, or fully constitutionally protected, speech".<sup>318</sup> If speech is not "purely commercial", meaning that it does more than propose a commercial transaction, it is entitled to full First Amendment protection. The court concluded that BARBIE GIRL is not purely commercial speech and is therefore protected.<sup>319</sup> It falls within the "non-commercial use" exception.

At the insistence of the National Association of Broadcasters and because of free speech concerns raised by the media, a third exception was added. "All forms of news reporting and news commentary" are also not actionable under the dilution provision. This will even include allegedly tasteless or nasty modifications of famous marks in for example newspaper cartoons, magazine stories or web pages on the Internet.<sup>320</sup>

<sup>316</sup> *Mattel, Inc. v. MCA Records, Inc.* 296 F.3d 894 (9<sup>th</sup> Cir. 2002).

<sup>317</sup> *Mattel, Inc. v. MCA Records, Inc.* 296 F.3d 894 at 904 (9<sup>th</sup> Cir. 2002).

<sup>318</sup> Parodies are deemed to be fully constitutionally protected speech. See *Mattel, Inc. v. MCA Records, Inc.* 296 F.3d 894 at 905 (9<sup>th</sup> Cir. 2002).

<sup>319</sup> The song was used to sell copies of Aqua's record, but the song also "lampoons the Barbie image and comments humorously on the cultural values Aqua claims she represents".

<sup>320</sup> McCarthy (1998) 599.



#### 4.8 THE TRADEMARK AMENDMENTS ACT OF 1999<sup>321</sup>

This Act further extended section 43(c) to apply to administrative proceedings before the Trademark Trial and Appeal Board (TTAB) and the United States Patent and Trademark Office (PTO). The Act was aimed at two important areas of dilution law. In the first place this Act now allows the owner of a famous mark to oppose an application for the registration of another mark on the basis that it will dilute his mark or to file a petition for the cancellation of such a mark. The Act will apply to any registration issued or application for registration filed after the effective date of the Federal Trademark Dilution Act, which was 16 January 1996.<sup>322</sup> The House Report<sup>323</sup> explains the reason for this amendment. It was thought that a resolution of a dispute regarding dilution by the Trademark Trial and Appeal Board, rather than by a Federal District Court, would lead to more timely, economical and expeditious decisions. It would also help to get the issue resolved before too much damage has been done to the famous mark and before the applicant for registration had invested too much money in his proposed mark. What is even more important for the whole issue of dilution is that the Board will now give guidance by way of precedent as to what qualifies as a famous mark and what exactly constitutes dilution.

The second amendment was to rectify an oversight in the Dilution Act and to clarify the remedies available for trademark dilution. In section 43(c)(2) of the Dilution Act it is stated that the owner of a famous mark shall be entitled only to injunctive relief, unless the other person willfully intended to trade on the owner's reputation or to cause dilution of the famous mark. If so, the owner shall be entitled to the remedies set forth in sections 35(a) and 36. These remedial sections of the Lanham Act were, however, not adjusted to include dilution violations. This was now accomplished by the Amendment Act.<sup>324</sup> Monetary relief, such as defendant's profits, damages, costs and reasonable attorney's

<sup>321</sup> See Gilson (1999) § 5.12[1][c][vii] & 5.12[1][d] for a discussion of the Trademark Amendments Act.

<sup>322</sup> Gilson (1999) § 5.12[1][d].

<sup>323</sup> HR Rep No 100-250, (1999).

<sup>324</sup> See 15 USC § 116(a) (injunctive relief), § 117(a) (profits, damages and costs), § 118 (delivery and destruction of articles bearing the diluting mark). § 34(a), 35(a) and 36 of the Lanham Act were amended.



fees, as well as the destruction of articles carrying the diluting mark, are now possible, if there was willful intent.

Although this is not new to trade-mark law in general,<sup>325</sup> monetary relief is not available under state dilution laws. They only provide for injunctive relief. This is probably due to the intangible damage caused by dilution. Exact ascertainment or even reasonable approximation is unlikely to be proved.<sup>326</sup> Something less than a complete injunction, like for example a disclaimer of association,<sup>327</sup> will not provide adequate relief in nearly all dilution cases. As Judge Roberts declared in *Wedgwood Homes v. Lund*:<sup>328</sup> "In light of the detrimental impact any second use could have on the advertising value of plaintiff's name, injunction is the appropriate remedy."

Pattishall would welcome this new amendment, allowing for damages. He already made the statement in 1984 that if the whole value of a trade mark is lost by dilution, "injunctive relief becomes moot and monetary relief would be the only meaningful remedy".<sup>329</sup> Guidelines for the ways and means of reasonably estimating dilution damage must however still be developed.

#### 4.9 CRITICAL ANALYSIS AND POTENTIAL IMPACT OF THE FEDERAL DILUTION ACT

The Federal Trademark Dilution Act, although only protecting famous marks, has raised trademark protection in the United States, according to Gilson, "to an unprecedented

<sup>325</sup> There is ample authority in case law.

<sup>326</sup> Pattishall (1984) 304-305. See also *Hyatt Corp. v. Hyatt Legal Services*, 736 F.2d 1153 at 1158-1159, 222 U.S.P.Q.2d 669 (7<sup>th</sup> Cir. 1984).

<sup>327</sup> Jacoby J "The Psychological Foundations of Trademark Law: Secondary meaning, Genericism, Fame, Confusion and Dilution" (2001) 91 *The Trademark Reporter* 1013 at 1067 and 1068 declares that "employing a disclaimer as a remedy in a dilution case would produce an opposite effect to that intended" and "it may be impossible to meaningfully employ a disclaimer remedy to counteract the dilution of a famous mark".

<sup>328</sup> *Wedgwood Homes, Inc. v. Lund* 294 Or. 493, 659 P.2d 377 at 383, 222 U.S.P.Q. 446 (Or. Sup. Ct. 1983), discussed in Chapter 4.3.3.3 "Ninth Circuit Cases" *supra*. See also Pattishall (1984) 305-306.

<sup>329</sup> Pattishall (1984) 306.



level".<sup>330</sup> Others also regard it as a significant and worthy advance in federal trade identity law.<sup>331</sup> Dilution is no longer a second-class concept protected only by some states, because being a federal claim now, it is on the same level as protection given to trade marks for other infringement causes. It is now possible to get a nationwide injunction and greater uniformity in dilution protection will now be possible. It is, however, expected that courts will very slowly and cautiously apply the Act. As stated above,<sup>332</sup> dilution protection is seen as essentially a private property protection device, as it only promotes the policy of protecting business goodwill. The perception may be that only a small group of elite businesspersons will benefit and this can also have the effect that courts may be quite reluctant to enforce the provisions of the Act.<sup>333</sup>

Klieger, on the other hand, feels that the dilution section creates no new rights in truly famous marks. He argues that the incorporation of dilution into the Lanham Act will eclipse confusion as the "gravamen of most federal trademark actions" and create trademark rights in gross.<sup>334</sup> McCabe is also not very enthusiastic about the Federal Trademark Dilution Act. He sees the passage of the Act as a step to "rectify and clarify erroneous analyses of dilution", but feels that there was little change in the courts' perceptions of dilution.<sup>335</sup>

Gilson considered it as a major breakthrough for an elite category of trade-mark owners.<sup>336</sup> He even sees a new class of trade marks, named the "Supermarks" developing. Marks that he thinks fit this description will, for example, be MARLBORO, COCA-COLA, McDONALD'S, IBM, DISNEY, KODAK, KELLOGG'S and BUDWEISER. On the other side, these exceptionally famous marks certainly communicate almost unlimited associations in connection with even completely unrelated products. Thus, if consumers see one of these marks on totally unrelated goods, they will

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<sup>330</sup> Gilson (1999) § 5.12[1][a].

<sup>331</sup> Pattishall (1996) 447. See also McCarthy (1998) 587, 599.

<sup>332</sup> See Chapter 3.5.1.4 "Trade-mark Policies" *supra*.

<sup>333</sup> Gilson (1999) § 5.12[1][e].

<sup>334</sup> Klieger (1997) 847.

<sup>335</sup> McCabe (2000) 1859.

<sup>336</sup> Gilson (1999) § 5.12[1][a].



almost certainly assume an association with the trade-mark owner.<sup>337</sup> Depending on how far the likelihood of confusion test can be stretched, it will even be possible to protect these marks without the necessity for the dilution concept.<sup>338</sup>

These supermarks are obviously famous, but marks can also be famous, although they are not famous throughout the whole country or in every market. The broadest impact of the dilution law might even be on industrial and commercial marks not famous amongst a broad segment of the public. Although the concept sounds very elitist, the enormous value of the distinctive quality of famous marks is hereby recognised and also the fact that this deserves protection.

Pattishall, however, criticises this concept of “famous” marks.<sup>339</sup> He sees it as an indefinite and subjective concept, which makes the dilution law one-sided, illogical and impracticable. It also unfairly favours only the larger and richer companies, while there is no indication why the owners of famous marks need or deserve more protection than the owners of less famous marks. He argues for the acceptance of a federal statute based on the Model State Trademark Act, which he portrays as “carefully drafted, tried and tested statutory language”. He ascribes the limitation of the trade-mark dilution act to “famous” marks as trying to combat fear that the Act was “going too far”.

As already said above, the Federal Trademark Dilution Act does not pre-empt state laws, with the result that a dilution claim can still be instituted under state dilution laws.<sup>340</sup> This aspect is criticised by McCarthy.<sup>341</sup> He believes that the federal law should have replaced the state dilution laws. That would have the result that the selection and adoption of new marks are less risky and more predictable. According to him, just the opposite result was achieved by the new Act.

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<sup>337</sup> Gilson (1999) § 5.12[1][e].

<sup>338</sup> Compare with the situation in European law. See the discussion of the *Canon* case in Chapter 5.8.1 “The Interpretation of Articles 4(1)(b) and 5(1)(b)” *infra* in this regard.

<sup>339</sup> Pattishall (1996) 448.

<sup>340</sup> The state dilution laws are in certain respects more lenient than the Federal Act, which requires both distinctiveness and fame and therefore certain trade-mark owners are more likely to continue bringing claims under the state statutes. See McCabe (2000) 1858.

<sup>341</sup> McCarthy (1998) 589.



However, greater uniformity in the interpretation and application of the dilution concept is certainly created by the Federal Act. The specific factors to be considered for the determination of famous marks, although criticised, will definitely also promote this aim. But it must be kept in mind that it is still possible for different circuits to give different interpretations to the same section.

Yet, there are some foreseeable problems in the application of the new Act.<sup>342</sup> The major source of unpredictability of the new law is the fact that there is no certainty as to which marks will qualify as famous marks, despite the eight-factor test.<sup>343</sup> In the absence of a “famous mark” register, it will be very risky for trade-mark practitioners to give “clearance” to new trade marks. Port is also in support of a Super Registry, as he refers to it.<sup>344</sup> He says that such a registry “would have gone a long way to reduce the costs of uncertainty”. Without such a registry the result will be that trade-mark practice will become more uncertain. Fame will have to be determined on a case-by-case basis through litigation.<sup>345</sup>

The degree of similarity of the conflicting marks is not defined and this may cause some interpretation problems.<sup>346</sup> Another problem might be with regard to the granting of injunctions. It might be difficult to prove the “lessening of the capacity” of a famous mark to distinguish, as well as irreparable harm in the absence of confusion and also urgency, as normally required.<sup>347</sup>

Port strongly feels that some kind of restriction, as has been introduced in Congress, is needed. He refers to a bill introduced in 1998,<sup>348</sup> which proposed that any claim for

<sup>342</sup> See Gilson (1999) § 5.12[1][e].

<sup>343</sup> See McCarthy (1998) 589-590. See also Klieger (1997) 845-6; Belongia (2002) 1161.

<sup>344</sup> Port (2000) 894, 911.

<sup>345</sup> Belongia (2002) 1174. See the discussion of “fame” in case law under the Federal Trademark Dilution Act in Chapter 4.10.3 “Famous Marks” *infra*.

<sup>346</sup> See the discussion in Chapter 4.10.1 “Identical or Similar Mark” *infra*.

<sup>347</sup> In the early cases decided after the implementation of the Act, most of the disputes were indeed centered on whether and how the distinctiveness of the famous mark was lessened. See Gilson (1999) § 5.12[1][f].

<sup>348</sup> HR Rep No 105-3119, (1998). See Port (2000) 828 fn 4.



dilution under the Lanham Act would have to be brought within one year of the date of registration of a mark or be forever barred. This bill, which Port describes as “exceedingly rational legislation which would constrain the unfettered congressional expansion of the trademark right”, however failed.

Despite these and other reservations, the Federal Dilution Act definitely carries great promise and without doubt fills a gap in trade-mark protection.<sup>349</sup>

#### 4.10 CASE LAW UNDER THE FEDERAL TRADEMARK DILUTION ACT

As was predicted, the federal courts relied firmly on decisions given by state courts on dilution in applying the Federal Trademark Dilution Act. One of the landmark interpretations of dilution law, the “Sweet Test” for determining the lessening of the distinctiveness of the famous mark, was, for example, accepted by some federal courts.<sup>350</sup> Some important decisions by the federal courts regarding the Act will be discussed in this section.

##### 4.10.1 IDENTICAL OR SIMILAR MARK?

The degree of similarity of the conflicting mark is not defined in the Act. McCarthy argues that the familiar test used for similarity in likelihood of confusion cases cannot be applied here, due to the substantial differences in the concepts of likelihood of confusion and dilution.<sup>351</sup> The question is whether a famous trade mark will receive dilution protection only against identical offending trade marks or also against similar offending trade marks? This issue was partly settled in the case of *Ringling Bros.-Barnum & Bailey Combined Shows v. Utah Division of Travel*.<sup>352</sup> The defendant argued that the use of the slogan THE GREATEST SNOW ON EARTH did not dilute plaintiff's well-known trade

<sup>349</sup> Gilson (1999) § 5.12[1][e].

<sup>350</sup> This test is discussed and evaluated in Chapter 4.3.3.1 “Second Circuit Cases” *supra*.

<sup>351</sup> McCarthy (1998) 591.

<sup>352</sup> *Ringling Bros.-Barnum & Bailey Combined Shows v. Utah Division of Travel*, 935 F.Supp. 763, 40 U.S.P.Q.2d 1303 (E.D. Va. 1996), *affd.* 170 F.3d 449, 50 U.S.P.Q.2d 1065 (4<sup>th</sup> Cir. 1999).



mark THE GREATEST SHOW ON EARTH, because the marks are not identical as required by the Act. The district court rejected this argument. It contended that the “plain and unambiguous language” of the Act clearly intended that similar or imitative marks should also be included under the dilution provision. The court, in following a common-sense approach, noted that the two references to “the mark” in the section, obviously referred to the famous mark. When using the indefinite “a mark” to refer to the offending mark, the legislature clearly indicates that it need not be identical to the famous mark. This is also in line, according to the court, with congressional intention of establishing uniformity amongst the states and to conform to international provisions on dilution.<sup>353</sup> The decision was affirmed in the Fourth Circuit Court of Appeals. This court just added that in the case of similar marks, they must evoke a mental association in the minds of consumers. The crucial question still remains as to how similar the conflicting marks must be to cause dilution. Possibly the “substantially” similar test of the LEXIS/LEXUS case will apply.<sup>354</sup>

In the *Federal Express* case<sup>355</sup> the similarity of the marks was also addressed. The two marks at issue were FEDERAL EXPRESS for an overnight delivery business and FEDERAL ESPRESSO for a coffee shop. The district court found that given the “inherent difference between ‘Express’ and ‘Espresso’” and the “context in which the parties use them” the marks are not very or substantially similar. The court even stated that this dissimilarity alone could defeat plaintiff’s blurring claim. The Circuit Court however indicated that it might find that the marks are of “sufficient similarity so that, in the mind of the consumer, the junior mark will conjure an association with the senior user.”<sup>356</sup>

<sup>353</sup> The District Court mentioned two other decisions in which it was implicitly assumed that imitative marks also qualify for dilution protection under the Act, namely *Wawa, Inc. v. Haaf*, 40 U.S.P.Q.2d 1629 (E.D. Pa. 1996) and *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. B.E. Windows*, 937 F.Supp. 204, 40 U.S.P.Q.2d 1010 (S.D.N.Y. 1996).

<sup>354</sup> *Mead Data Central Inc. v. Toyota Motor Sales, U.S.A., Inc.*, 875 F.2d 1026, 10 U.S.P.Q.2d 1961 (2<sup>nd</sup> Cir. 1989). See Chapter 4.3.3.1 “Second Circuit Cases” *supra* for a detailed discussion on this case. See also McCarthy (1998) 591.

<sup>355</sup> *Federal Express Corp. v. Federal Espresso, Inc.*, 201 F.3d 168, 2000 U.S. App. LEXIS 96, 53 U.S.P.Q.2d (BNA) 1345 (2<sup>nd</sup> Cir. 2000).

<sup>356</sup> *Federal Express Corp. v. Federal Espresso, Inc.*, 201 F.3d 168 at 177, 2000 U.S. App. LEXIS 96, 53 U.S.P.Q.2d (BNA) 1345 (2<sup>nd</sup> Cir. 2000).



#### 4.10.2 DISTINCTIVENESS

Distinctiveness is a crucial trade-mark concept, reflecting the inherent strength or weakness of a mark. Distinctiveness can be measured against the well-known spectrum of marks, ranging from generic to descriptive, suggestive, arbitrary and fanciful.<sup>357</sup> The question of distinctiveness in a dilution claim was addressed by the court in the *Nabisco* decision.<sup>358</sup> The court determined that distinctiveness is something quite different from fame.<sup>359</sup> Distinctiveness, in addition to fame, is an essential element of the statutory requirement. The more distinctive the mark, the greater the interest to protect and the better the chances of a finding of dilution. In a later decision<sup>360</sup> the court interpreted the *Nabisco* court's "distinctiveness" test to be equivalent to "inherent distinctiveness" as opposed to distinctiveness achieved through secondary meaning. Inherent distinctiveness was also the standard set by the Second Circuit in *TCPIP Holding Co v. Haar Communications*<sup>361</sup> for protection under the Federal Trademark Dilution Act. The court interpreted the Act to require a "level of distinctiveness beyond normal trademark law" and said that such a "heightened distinctiveness requirement" can only be met if a mark

<sup>357</sup> Kera DJ & Davis TH "Annual Review: A. United States: The Fifty-Third Year of Administration of the Lanham Trademark Act of 1964" (2001) 91 *The Trademark Reporter* 119 at 120; Edgecombe (2002) 1256-1258. See also the discussion of the spectrum of marks in *V Secret Catalogue, Inc. v. Moseley*, 259 F.3d 464 at 469 (6<sup>th</sup> Cir. 2001). The VICTORIA'S SECRET mark was found to be in the category of arbitrary and fanciful marks and therefore deserving of a high level of trade-mark protection. A generic mark is not inherently distinctive and describes a product class. Descriptive marks, although not inherently distinctive, can become distinctive through secondary meaning. A suggestive mark is inherently distinctive, but still has a descriptive element, which implies a quality of the product. An arbitrary mark bears no relationship to the product with which it is associated, like APPLE Computers, CAMEL cigarettes or IVORY soap. Fanciful or coined marks are marks invented by the mark holder to singularly represent his product, for example KODAK cameras.

<sup>358</sup> *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 1999 U.S. App. LEXIS 20786, 51 U.S.P.Q.2d (BNA) 1882 (2<sup>nd</sup> Cir. 1999). See Chapter 4.10.4 "Likelihood of Dilution vs Actual Dilution" *infra* for the facts and a more detailed discussion of this case. The court found that the shape of Pepperidge Farm's goldfish was "reasonably distinctive".

<sup>359</sup> This was also acknowledged in the case of *Avery Dennison Corp. v. Jerry Sumpton*, 189 F.3d 868 at 877; 1999 U.S. App. LEXIS 19954; 51 U.S.P.Q.2d (BNA) 1801; 99 Cal. Daily Op. Service 6795; 99 Daily Journal DAR 8723 (9<sup>th</sup> Cir. 1999) where the court held that "famousness requires a showing greater than mere distinctiveness". See also *V Secret Catalogue, Inc. v. Moseley*, 259 F.3d 464 at 469 (6<sup>th</sup> Cir. 2001); Edgecombe (2002) 1258.

<sup>360</sup> *New York Stock Exchange v. New York, New York Hotel LLC*, 69 F. Supp.2d 479, 52 U.S.P.Q.2d 1884 (S.D.N.Y. 1999).

<sup>361</sup> *TCPIP Holding Co. v. Haar Communications, Inc.*, 244 F.3d 88 (2<sup>nd</sup> Cir. 2001).



possesses inherent distinctiveness. This, however, goes against the language of the statute, which refers to “the degree of inherent or acquired distinctiveness”.<sup>362</sup>

The requirement of distinctiveness is furthermore an important limitation. A mark can be famous, yet lacking distinctiveness and for that reason cannot be protected under the Dilution Statute. Examples of such marks are AMERICAN, NATIONAL, FEDERAL, FEDERATED, FIRST, UNITED, ACME, MERIT or ACE.<sup>363</sup>

Subsequently, in the *Times Mirror* case, the court, however, quoted McCarthy to the effect that distinctiveness is used here only as a synonym for fame.<sup>364</sup> The court also said that Congress did not intend the Federal Act to require separate tests for fame and distinctiveness.<sup>365</sup> Gilson agrees and explains further that “distinctive quality” is inherent in every famous mark. Thus, if a mark is famous, it must have distinctive quality, but the converse does not apply.<sup>366</sup> According to Gilson, the use of the word “distinctive” in the dilution provision is merely explanatory and even redundant.<sup>367</sup>

In the case of *Viacom Inc v. Ingram Enterprises, Inc.*<sup>368</sup> the court found that a merely suggestive mark,<sup>369</sup> which is thus not fanciful or arbitrary, does not merit dilution

<sup>362</sup> See Edgecombe (2002) 1276 who believes that the FTDA should be amended to require only inherent distinctiveness, as the underlying rationale of dilution protection is that it should only extend to a limited class of marks. Thus, only fanciful marks should be protected. However, in the proposed Trademark Dilution Revision Act of 2005, distinctiveness is still described as inherent or acquired distinctiveness. See discussion of this Act in Chapter 4.10.4 “Likelihood of Dilution vs Actual Dilution” *infra*.

<sup>363</sup> *V Secret Catalogue, Inc. v. Moseley*, 259 F.3d 464 at 470 (6<sup>th</sup> Cir. 2001). This point was also taken in *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208 at 227, 1999 U.S. App. LEXIS 20786, 51 U.S.P.Q.2d (BNA) 1882 (2<sup>nd</sup> Cir. 1999).

<sup>364</sup> *Times Mirror Magazines Inc. v. Las Vegas Sports News*, 212 F.3d 157 at 167, 2000 U.S. App. LEXIS 8553 (3<sup>rd</sup> Cir. 2000).

<sup>365</sup> The court already found that THE SPORTING NEWS had acquired a secondary meaning and therefore is distinctive and has fame in a niche market.

<sup>366</sup> Gilson (1999) § 5.12[1][c][ii]; Belongia (2002) 1175. Therefore, if the court found that a mark is distinctive, it could not assume that the mark is famous as well, as the court did in *Lexington Mgmt. Corp. v. Lexington Capital Partners*, 10 F.Supp. 2d 271, 47 U.S.P.Q.2d 1558 (S.D.N.Y. 1998). The court incorrectly stated that either famous or distinctive marks are protected in terms of the Dilution Act.

<sup>367</sup> Gilson (1999) § 5.12[1][c][ii].

<sup>368</sup> *Viacom Inc v. Ingram Enterprise, Inc.*, 141 F.3d 886 (8<sup>th</sup> Cir. 1998).

<sup>369</sup> A suggestive mark is one that indirectly describes a product or service in a way that requires a mental leap on the part of the consumer.



protection. Viacom, which owns the well-known entertainment franchise, BLOCKBUSTER, tried to enjoin defendant's use of the mark BLOCKBUSTER FIREWORKS on its fireworks stands in Missouri and California. The court was afraid that granting protection to a suggestive term, would create a complete monopoly in the word. McCabe feels that since most marks are merely suggestive, denial of protection will result in a lack of protection for a majority of marks. This, in his view, will undermine the entire dilution doctrine.<sup>370</sup>

#### 4.10.3 FAMOUS MARKS

By requiring a famous mark for a finding of dilution, the scope of the Federal Act is limited. The determination of fame has become the critical issue or dispositive factor in a dilution case.<sup>371</sup> However, fame is a non-quantifiable term and not a term with any inherent legal significance.<sup>372</sup> Only a few courts have already taken the opportunity to apply the eight-factor test of section 43(c). Some of the courts did so with little analysis and also show little or even less understanding of the Act. It is very unpredictable how these factors will be balanced and applied. Professor Port finds it interesting that virtually all marks found to be famous by the courts, were found to be diluted as well.<sup>373</sup> The one case in which a detailed discussion of the eight factor-test was done, is *Star Markets, Ltd. v. Texaco, Inc.*<sup>374</sup>

The facts in the *Star Markets* case were as follows. The plaintiff was the owner of the supermarket chain, called STAR MARKETS. It operated the stores in Hawaii since 1946. The defendant operated gasoline stations with convenience stores throughout the United States, thus including Hawaii. It then began in 1995 to use the name STAR MART, together with a Texaco logo ("Star T") for its convenience stores in Hawaii. The plaintiff instituted an action, based on the dilution section in the Federal Trademark

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<sup>370</sup> McCabe (2000) 1862.

<sup>371</sup> Port (2000) 880.

<sup>372</sup> Edgecombe (2002) 1252.

<sup>373</sup> Personal comments to the author in May 2000. See also Port (2000) 880.

<sup>374</sup> *Star Markets, Ltd. v. Texaco, Inc.*, 950 F.Supp. 1030 (D. Haw. 1996).



Dilution Act.<sup>375</sup> The court had to consider whether the trade mark STAR MARKETS is famous enough to qualify for protection.

Although the first three factors, namely degree of distinctiveness, duration and extent of use and duration and extent of advertising and publicity, favoured the plaintiff, all the other factors weighed quite heavily in favour of the defendant. The question of geographical extent was an important issue before the court. The court was strongly of the view that fame in only one state was definitely not enough to qualify for federal dilution protection.<sup>376</sup> There was also extensive third party usage of the word STAR and STAR MARKETS, which counted against the plaintiff. The last factor also favoured the defendant, as the mark STAR MARKETS was not federally registered. The court, therefore, concluded that the trade mark STAR MARKETS was not famous enough to qualify for dilution protection under section 43(c).<sup>377</sup>

Another case, decided in the same year, was *Golden Bear Int'l v. Bear U.S.A.*,<sup>378</sup> where the court had to rule on the fame of the GOLDEN BEAR trade mark used by the defendant on a number of products, especially clothing associated with golfing. The trade mark was owned and also licensed by the applicant. They also linked it to the famous golfer, Jack Nicklaus, who was good publicity for the mark. The defendant used its BEAR USA mark for clothing mainly in inner-city markets. The court found that the GOLDEN BEAR mark was indeed well-known by golfers, but questioned its fame under the general public and, more specifically, the purchasers of defendant's clothing. Like in the *Star Market* case, there was extensive third party usage of the word BEAR and bear logos in connection with sporting goods and clothes. The court thus ruled against the plaintiff.

<sup>375</sup> A recognition survey was also used here to indicate the fame of the plaintiff's mark.

<sup>376</sup> State dilution statutes were not pre-empted by the Federal Act and were still available for the protection of locally famous marks.

<sup>377</sup> Some other marks were also held not to be famous under the 1995 Federal Trademark Dilution Act. Some examples of these marks and cases are COLUMBIA University (*Trustees of Columbia Univ. v. Columbia/HCA Healthcare Corp.*, 964 F. Supp. 733, at 750, 43 U.S.P.Q.2d (BNA) 1083 (S.D.N.Y. 1997)); PETRO truck stop services (*Petro Shopping Ctr. L.P. v. James River Petroleum*, 41 U.S.P.Q.2d (BNA) 1853 (E.D. Va. 1997)); WE'LL TAKE GOOD CARE OF YOU slogan for a retail drugstore chain (*Genovese Drug Stores, Inc. v. TGC Stores, Inc.*, 939 F. Supp. 340 (D.N.J. 1996)).

<sup>378</sup> *Golden Bear Int'l v. Bear U.S.A.*, 969 F.Supp. 742, 42 U.S.P.Q.2d 1283 (N.D. Ga. 1996).



In contrast with these decisions, Gilson<sup>379</sup> mentioned another two where he feels that the court totally misunderstood the mechanics and purpose of the Federal Act. The first one, decided by the Maryland district court was *The Gazette Newspapers Inc. v. The New Paper Inc.*<sup>380</sup> The plaintiff used the unregistered common-law trade mark GAZETTE on its eighteen newspapers, but only in two counties in Maryland. The defendant started to use the name THE FREDERICK GAZETTE on its paper in one of the two counties. Suit was brought under section 43(a), for infringement, as well as under section 43(c). The court first considered the claim under section 43(a) and found that relief would be warranted. Then, with no further analysis, it declared that the section 43(c) factors were essentially the same as those considered under section 43(a).<sup>381</sup> The court found for the plaintiff on both claims, without even considering the fame of the trade mark GAZETTE.

The second case where the concept was misunderstood was in *Nailtiques Cosmetic Corp. v. Salon Sciences Corp.*<sup>382</sup> The court reached the same conclusion as in the *Gazette* case, granting a preliminary injunction on the basis of both likelihood of confusion and dilution. The plaintiff's trade mark, NAILTIQUES, for fingernail care products, was indeed very successful. The defendant commenced the use of PRO-TECHNIQUES on similar products with a similar trade dress. Although the court listed the eight factors of section 43(c), it just referred to its discussion of the infringement claim to decide the dilution claim. Again, it was clear that the court did not understand the dilution provision.

In *Syndicate Sales v. Hampshire Paper*<sup>383</sup> the issue of trademark fame also came under

<sup>379</sup> See Gilson (1999) § 5.12[1][f][iii].

<sup>380</sup> *The Gazette Newspapers Inc. v. The New Paper Inc.*, 934 F.Supp. 688, 40 U.S.P.Q.2d 1900 (D. Md. 1996).

<sup>381</sup> The court erroneously referred to these factors as "factors for determining whether trademark dilution has occurred". See also Klieger (1997) 850.

<sup>382</sup> *Nailtiques Cosmetic Corp. v. Salon Sciences Corp.* 41 U.S.P.Q.2d 1995 (S.D. Fla. 1997).

<sup>383</sup> *Syndicate Sales, Inc. v. Hampshire Paper Corporation* 192 F.3d 633, 1999 U.S. App. LEXIS 21884, 52 U.S.P.Q.2d (BNA) 1035 (7<sup>th</sup> Cir. 1999). See also Seitz (1999) 135-136; Kera & Davis (2001) 123 for short discussions of this case.



scrutiny. The appellant *inter alia* claimed trade dress<sup>384</sup> dilution under the Federal Act. Syndicate Sales had produced plastic baskets used for floral bouquets at funerals since 1960. Then in 1994 Hampshire Paper also entered this market, using Syndicate Sales' baskets as a model for its baskets. The baskets looked very similar, with only a few noticeable differences. Both companies sold their products to wholesalers, who then sold them to retailers. The boxes in which the products were packed were respectively white and brown and each company's name was displayed on the boxes. The district court found that if Syndicate Sales' trade dress is famous at all, it is only amongst wholesalers and retail florists and that "fame in such a niche market cannot be sufficient to establish fame for purposes of the FTDA". The circuit court, after analysing case law, stated that niche-market renown might be a factor indicating fame in cases where the plaintiff and defendant are in the same or related markets, as was the case here.<sup>385</sup> According to the court this is also supported by one of the factors to determine fame, namely "the degree of recognition of the mark in the trading areas and channels of trade used by the marks' owner and the person against whom the injunction is sought". The mark must still be used in a substantial segment of the country, but within that segment, its fame may be limited to those engaged on a regular basis in commercial activity involving this product.<sup>386</sup>

Niche-market fame was also acknowledged in the case of *Times Mirror*.<sup>387</sup> The court found that the mark, THE SPORTING NEWS, was famous in a niche market. The court

<sup>384</sup> Trade dress refers to the total image of a product, including features such as size, shape, colour or colour combinations, texture, graphics, or even particular sales techniques.

<sup>385</sup> The Fifth Circuit in *Advantage Rent-A-Car, Inc. v. Enterprise Rent-A-Car, Co.*, 238 F.3d 378 at 380 (5<sup>th</sup> Cir. 2001) agreed with *Syndicate Sales* that only niche-market fame is required by the Federal Trademark Dilution Act. The court, however, found that Enterprise's WE'LL PICK YOU UP mark was not sufficiently famous within the car rental industry.

<sup>386</sup> See *Syndicate Sales, Inc. v. Hampshire Paper Corporation* 192 F.3d 633 at 634, 639-641, 1999 U.S. App. LEXIS 21884, 52 U.S.P.Q.2d (BNA) 1035 (7<sup>th</sup> Cir. 1999). The case was remanded to the district court to determine whether Syndicate Sales' trade dress was famous in the specific market as defined by the circuit court.

<sup>387</sup> *Times Mirror Magazines Inc. v. Las Vegas Sports News*, 212 F.3d 157, 2000 U.S. App. LEXIS 8553 (3<sup>rd</sup> Cir. 2000). The court stated at 164: "We are persuaded that a mark not famous to the general public is nevertheless entitled to protection from dilution where both the plaintiff and defendant are operating in the same or related markets, so long as the plaintiff's mark possesses a high degree of fame in its niche market." The trade marks, THE SPORTING NEWS and LAS VEGAS SPORTING NEWS, competed in the same niche market for sports periodicals. See the discussion of the case in Chapter 4.10.4 "Likelihood of Dilution vs Actual Dilution" *infra*.



followed other cases that found niche-market fame and also referred to the Restatement for further support that niche-market fame is sufficient for protection against dilution.<sup>388</sup> The court also considered the fame factors of the Dilution Act.<sup>389</sup>

In *WAWA v. Haaf*,<sup>390</sup> the owner of the WAWA convenience store chain asked for an injunction against a competitor using the name HAHA.<sup>391</sup> In deciding whether WAWA was a famous mark for purposes of a dilution claim, the court considered at least some of the eight factors cited in the Act, namely the duration of the senior user's use of the mark, the extent of its advertising of the mark and public recognition of the mark.<sup>392</sup> The court then declared the WAWA mark to be famous.<sup>393</sup> The court, however, did not expressly mention the fame factors, thereby creating the impression that the fame inquiry is not particularly important.

Other examples of marks that were held to be famous under the 1996 Act, are BUDWEISER for beer in *Anheuser-Busch v. Andy's Sportswear*; CANDYLAND for a children's game in *Hasbro v. Internet Entertainment Group*; DON'T LEAVE HOME WITHOUT US in *American Express v. CFK*; THE GREATEST SHOW ON EARTH in the *Ringling Bros.-Barnum* cases; INTERMATIC for electrical products in *Intermatic v. Toeppen*; PANAVISION for movie and television cameras in *Panavision v. Toeppen* and TOYS "R" US for a toy store in *Toys "R" Us v. Akkaoui*.<sup>394</sup>

<sup>388</sup> The dissenting opinion of Circuit Judge Barry in the *Times Mirror* case rejected the niche-market theory. He strongly feels that Congress intended the Dilution Act only to apply to a narrow category of truly famous marks.

<sup>389</sup> The first four and the last factor all weighed in favour of finding the mark distinctive. The fifth, sixth and seventh factors were not explicitly addressed by the district court. The Act, nevertheless, does not require the court to strictly apply every factor.

<sup>390</sup> *Wawa, Inc. v. Haaf*, 40 U.S.P.Q.2d 1629 (E.D. Pa. 1996).

<sup>391</sup> Port (2000) 879 holds the view that the appropriate cause of action should have been trade-mark infringement and not dilution.

<sup>392</sup> A recognition survey was used by the plaintiff to show the fame of the WAWA mark. The court, however, did not discuss the results of the survey or even whether the survey helped them in reaching their conclusion. See Pokotilow SB & Fefferman SA "FTDA Survey Evidence: Does Existing Case Law Provide Any Guidance for Constructing a Survey?" (2001) 91 *The Trademark Reporter* 1150 at 1157-1158.

<sup>393</sup> Again Port (2000) 879 differs from the court. He says that WAWA is not famous under the clear language of s 43(c) and that the court applied the least legitimate view of fame, namely regional fame.

<sup>394</sup> These examples are taken from McCarthy (1998) 594-595. Most of these cases are discussed in this Chapter and all the references also appear in the Bibliography.



Klieger strongly feels that most of the cases discussed above undermine the importance of the fame requirement. The courts did not even try to limit protection to truly famous marks as envisaged by the Trademarks Act. In most of these cases the eight-factor test for fame of a mark was not even mentioned. This can lead to the situation where trademark rights in gross are created.<sup>395</sup> It must be kept in mind that in cases where the goods are non-competing, the level of fame required must be higher, because the mark must be sufficiently well known to the general public that blurring will occur across product lines, regardless of the absence of competition.<sup>396</sup>

In the decisions discussed above the courts used one of two conflicting judicial theories, either the niche-market theory or the general-public theory, as a mechanism for identifying famous trade marks eligible for dilution protection.<sup>397</sup> The niche-market theory applied to the dilution doctrine means that a trade mark can be famous enough to merit dilution protection, although it is only well known in a niche market limited to a specific consumer group, geographic area, product feature or price-quality level, and not famous to the general public. The niche-market theory is rooted in one of the fame factors, namely "the degree of recognition of the mark in the trading areas and channels of trade of the mark's owner and the person against whom the injunction is sought".<sup>398</sup> This theory found support in dilution cases especially where the trade marks are used on competing products. Cases where the niche-market theory gained support are the *Nabisco* case,<sup>399</sup> the *Syndicate Sales* case<sup>400</sup> and the *Times Mirror* case.<sup>401</sup> The general-public theory requires the plaintiff "to establish fame on a national or even a global scale

<sup>395</sup> Klieger (1997) 850-851.

<sup>396</sup> Kostello (2001) 1143.

<sup>397</sup> See article by Belongia (2002) 1159-1213 for a complete discussion of these two theories in trade-mark dilution law.

<sup>398</sup> Kostello (2001) 1137, with reference to § 43(1)(c)(F).

<sup>399</sup> *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 1999 U.S. App. LEXIS 20786, 51 U.S.P.Q.2d (BNA) 1882 (2<sup>nd</sup> Cir. 1999). The court found Pepperidge Farm's GOLDFISH trade mark to be famous. See the discussion of the case in Chapter 4.10.4 "Likelihood of Dilution vs Actual Dilution" *infra*.

<sup>400</sup> *Syndicate Sales, Inc. v. Hampshire Paper Corporation* 192 F.3d 633, 1999 U.S. App. LEXIS 21884, 52 U.S.P.Q.2d (BNA) 1035 (7<sup>th</sup> Cir. 1999) discussed *supra* in this section.

<sup>401</sup> *Times Mirror Magazines Inc. v. Las Vegas Sports News*, 212 F.3d 157, 2000 U.S. App. LEXIS 8553 (3<sup>rd</sup> Cir. 2000). See the discussion of the case in Chapter 4.10.4 "Likelihood of Dilution vs Actual Dilution" *infra*.



for a substantial segment of the public".<sup>402</sup> This theory was followed in the cases of *Mead Data*<sup>403</sup> and *I.P. Lund*.<sup>404</sup>

Protecting trade marks which are famous in a niche market is consistent with the idea of protecting the proprietary interest of the trade-mark owner. This will also be to the benefit of small and medium-size businesses, which often operate in a niche market. In spite of these and other arguments in favour of the niche-market theory,<sup>405</sup> Belongia reasons that this theory relies solely on a judge's discretion, who must define the boundaries of the specialised market<sup>406</sup> and also has the potential to create exclusive rights in gross for trade marks.<sup>407</sup> For these reasons it should not be used. She perceives that the general-public theory is more consistent with congressional intent, the language of the Federal Act and legislative history.<sup>408</sup> Another question is whether the dilution theory is necessary or even appropriate in niche-market circumstances where the parties operate in the same or related markets and the marks are the same or similar. The reason is that in such circumstances there will nearly always be a likelihood of confusion, which means that the traditional infringement remedies are available.<sup>409</sup> Kostello, however, explains that even where the parties are in direct competition in the same niche market, there may not be a likelihood of confusion. Thus there will be a gap in protection if the dilution theory cannot be used.<sup>410</sup>

Besides determining whether a trade mark can be famous within a niche market, the courts have to decide whether fame within a particular geographic area will be acceptable in terms of the Federal Trademark Dilution Act. One of the eight factors is "the

<sup>402</sup> Belongia (2002) 1186.

<sup>403</sup> *Mead Data Central, Inc. v. Toyota Motor Sales, U.S.A., Inc* 875 F.2d 1026, 1032, 10 U.S.P.Q.2d 1961 (2<sup>nd</sup> Cir. 1989). For a detailed discussion see Chapter 4.3.3.1 "Second Circuit Cases" *supra*.

<sup>404</sup> *I.P. Lund Trading ApS v. Kohler Co.* 163 F.3d 27, 49 U.S.P.Q.2d 1225 (1<sup>st</sup> Cir. 1998). The court decided that the VOLA trade dress, although renowned in the world of interior design and high-end bathroom features, did not possess the degree of fame required under the Federal Act.

<sup>405</sup> See Belongia (2002) 1194-1199.

<sup>406</sup> Belongia (2002) 1207.

<sup>407</sup> Belongia (2002) 1204.

<sup>408</sup> Belongia (2002) 1199-1201.

<sup>409</sup> Kostello (2001) 1140.

<sup>410</sup> Kostello (2001) 1142. He uses the example of *Syndicate Sales*, discussed *supra* in this section at fn 383 and accompanying text.



geographical extent of the trading area in which the [plaintiff's] mark is used". This suggests that nationwide fame is not required.<sup>411</sup> The House Report, however, makes it clear that the geographic fame of the mark must extend throughout a substantial portion of the United States.<sup>412</sup>

Belongia suggests that the following factors should be used in conjunction with the existing statutory factors to determine the fame of a trade mark:<sup>413</sup> the quantitative and qualitative advertising efforts employed by the plaintiff,<sup>414</sup> the strength of the mark,<sup>415</sup> consumer surveys<sup>416</sup> and the number and diversity of products on which the trade mark appears.

Swann suggests a rather different way to determine the fame of a trade mark.<sup>417</sup> He sees the fame factors in dilution cases as only the starting point. He pleads for an intuitive approach by the courts. A symbol which in itself "identifies,<sup>418</sup> informs<sup>419</sup> and idealizes<sup>420</sup> – that singularly<sup>421</sup> stimulates and sells – is intuitively of incalculable value...".<sup>422</sup> Such a symbol, he reasons, has "actual fame". To prove actual fame one

<sup>411</sup> Kostello (2001) 1146-1148. See *Star Markets, Ltd. v. Texaco, Inc.* 950 F.Supp. 1030 (D. Haw. 1996) [use in one state not enough]; *WAWA Inc. v. Haaf*, 40 U.S.P.Q.2d (BNA) 1629 (E.D. Pa. 1996) [use in five states for 90 years sufficient]; *The Gazette Newspapers Inc. v. The New Paper Inc.*, 934 F.Supp. 688, 40 U.S.P.Q.2d 1900 (D. Md. 1996) [use in two counties enough]. See also Chapter 4.7.2 "Discussion of the Different Factors" *supra*.

<sup>412</sup> HR Rep No 104-373, 7 (1995). See also the discussion of fame in the proposed Trademark Dilution Revision Act of 2005 *infra* in this section.

<sup>413</sup> Belongia (2002) 1210-1213.

<sup>414</sup> Quantitative advertising can be measured by looking at the sales figures – the higher the sales figures the more effective the advertising. The qualitative advertising refers to how and where the goods were promoted, for example to a large audience at an international sports event.

<sup>415</sup> Ranging from arbitrary or fanciful marks, which are strong, to descriptive marks which require secondary meaning.

<sup>416</sup> Belongia (2002) 1211 advocates that a minimum of fifty percent of the general public should recognise the plaintiff's trade mark to establish fame.

<sup>417</sup> Swann JB "An Intuitive Approach to Dilution" (1999) 89 *The Trademark Reporter* 907-917.

<sup>418</sup> Swann (1999) 910-911. A famous trade mark identifies with almost absolute clarity.

<sup>419</sup> This function of the mark entails that it gives a complete picture of a product and its attributes. See Swann (1999) 911-912.

<sup>420</sup> Swann (1999) 912-913. This function refers to the emotional component of a trade mark. A famous trade mark has its "own persona" which conveys an image, life style or pleasant experience.

<sup>421</sup> A famous mark must function as a singular symbol. For example, a mark such as AMERICA, is a component of at least 4708 registrations and therefore can never be a singular symbol and for this reason cannot be diluted. See Swann (1999) 911.

<sup>422</sup> Swann (1999) 913.



can search the owner's marketing files for awareness studies, marketing plans, requests for licensing agreements and more.<sup>423</sup> If a mark is actually famous one needs no more positive proof of dilution, as it intuitively suggests injury from third-party use.<sup>424</sup>

Moskin pleads for a federal registry of famous marks.<sup>425</sup> Those who believe their marks are famous should prove it and also pay for the honour and accompanying rights. Greater certainty will be created for businesses which adopt a mark for the first time.

Some certainty on the scope of the fame requirement will be brought about by the proposed new Trademark Dilution Revision Act of 2005.<sup>426</sup> This legislation expands the threshold of "fame" and thereby denies protection to marks that are famous only in niche markets. The Act determines that a mark is famous "if it is widely recognized by the general consuming public of the United States as a designation of the source of the goods or services of the mark's owner." Although the courts may consider "all relevant factors", the specific factors listed in the Act are reduced to the following three: firstly, the duration, extent and geographic reach of advertising and publicity of the mark, whether advertised or publicized by the owner or by third parties; secondly, the amount, volume and geographic extent of sales of goods or services offered under the mark; and finally, the extent of actual recognition of the mark. This last factor reminds one of Swann's proposition that a mark must have actual fame before it can be protected against dilution.<sup>427</sup>

Courts would still be able to use most of the fame factors listed in the present Act to determine whether a mark is famous under the new Act, as it states that "all relevant factors" may be considered. The only exception will be the sixth factor, namely "the

<sup>423</sup> See Swann (1999) 915-916 for discussion and examples.

<sup>424</sup> Swann (1999) 909.

<sup>425</sup> Moskin JE "Victoria's Big Secret: Whither Dilution Under the Federal Dilution Act?" (2003) *The Trademark Reporter* 842 at 858 and see his proposed legislation for "Certification of Famous Marks" at 863-865 of the same article.

<sup>426</sup> Trademark Dilution Revision Act of 2005 HR Rep No 683, (9 February 2005). This Act was introduced after the cut-off of 31 December 2003 for this dissertation, but due to its importance some remarks are included. See also concluding paragraphs of Chapter 4.10.4 "Likelihood of Dilution vs Actual Dilution" *infra*.

<sup>427</sup> See Swann (1999) 907-917 and fn 417 *supra* and accompanying text.



degree of recognition of the mark in the trading areas and channels of trade of the mark's owner and the person against whom the injunction is sought",<sup>428</sup> which is rooted in the niche-market theory. By denying protection for trade marks which are only famous in a niche market, small and medium-size businesses may be prejudiced. As Kostello explains, where the parties are in direct competition in the same niche market, there may not be a likelihood of confusion. Thus there will be a gap in protection if the dilution theory cannot be used.<sup>429</sup> But, more importantly, by prohibiting protection for marks only famous in a niche market, the proposed Act expressly chose against the protection of the proprietary interest of the trade-mark owner.

#### 4.10.4 LIKELIHOOD OF DILUTION VS ACTUAL DILUTION

Courts interpreting the Federal Trademark Dilution Act have given conflicting judgments on the words "causes dilution" used in the Act. This disagreement has resulted in a circuit split. Some courts require proof of actual dilution, while others find a likelihood of dilution sufficient. While it just seems to be a question of interpretation, this controversy in fact reaches to the core of the ongoing dilution debate.<sup>430</sup> As an overboard interpretation would in effect give trade-mark owners a property right in gross, while an overly-restrictive construal would provide no remedy at all, it is of the utmost importance to find a proper balance.<sup>431</sup> Even in decisions under state dilution laws, which generally require a "likelihood of dilution", the courts remain divided as to whether actual harm must be demonstrated or not.<sup>432</sup> It was hoped that the Supreme Court in *Moseley v V Secret*<sup>433</sup> would resolve the split in the circuit courts' application of the Federal Act.

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<sup>428</sup> § 43(1)(c)(F).

<sup>429</sup> Kostello (2001) 1142. He uses the example of *Syndicate Sales*, discussed *supra* in this section at fn 383 and accompanying text.

<sup>430</sup> Voss (2000) 265. See also Chapter 3.5.3 "Role of the Status of the Trade-Mark Proprietor's Right in the Dilution Debate" *supra*.

<sup>431</sup> See Voss (2000) 266. He describes dilution as a potentially exclusionary right, thereby stressing the importance of finding a balance. See also Lee (2002) 706.

<sup>432</sup> Garcia (1995) 515. See also Chapter 4.3.1 "Protection and Related Problems" *supra*.

<sup>433</sup> *Moseley v. V Secret Catalogue Inc.*, 123 S. Ct. 1115 (2003). See the discussion *infra* in this section.



The Federal Act is furthermore silent as to the factors to be considered in determining whether or not a junior user's mark "causes dilution". The six-factor "Sweet Test", formulated in the concurring opinion in the *Mead Data* case,<sup>434</sup> was accepted as the leading test for dilution for the first few years of the Federal Act's existence.<sup>435</sup> As will be seen in the cases discussed below, this test was rejected in several recent judgments, each formulating its own test for dilution.

The first two important decisions in federal courts regarding the likelihood of dilution/actual dilution dispute were *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Development*<sup>436</sup> decided by the Fourth Circuit and *Nabisco, Inc. v. PF Brands, Inc.*,<sup>437</sup> a Second Circuit decision. In *Ringling Brothers v. Utah*, the Fourth Circuit court ruled that the defendant did not dilute the famous mark of the plaintiff, because the plaintiff failed to demonstrate that it had suffered "actual economic harm" caused by the defendant's use of the mark.

The Division of Travel Development of the State of Utah had used the slogan THE GREATEST SNOW ON EARTH as an advertisement for Utah's winter sports attractions since 1962. It was registered in Utah in 1975 and federally in January 1997. Ringling Brothers had, however, since 1872 used the slogan THE GREATEST SHOW ON EARTH to describe their well-known circus and it was registered as a federal trade mark in 1961. Ringling Brothers commenced with this action for dilution of their mark under the Federal Act in June 1996 in the Virginia District Court, after unsuccessfully opposing Utah's federal registration of its mark.

<sup>434</sup> *Mead Data Central, Inc. v. Toyota Motor Sales, U.S.A., Inc.*, 875 F.2d 1026, 1032, 10 U.S.P.Q.2d 1961 (2<sup>nd</sup> Cir. 1989). See Chapter 4.3.3.1 "Second Circuit Cases" *supra* for a detailed discussion.

<sup>435</sup> Shire HJ "Varying Standards for Assessing whether there is Dilution under the Federal Trademark Dilution Act" 91 (2001) *The Trademark Reporter* 1124 at 1125.

<sup>436</sup> *Ringling Bros.-Barnum & Bailey Combined Shows, Inc., v. Utah Division of Travel Development* 935 F.Supp. 763, 1996 U.S. Dist. LEXIS 13304, 40 U.S.P.Q.2d (BNA) 1303 (E.D. Va. 1996); 955 F.Supp. 605, 1997 U.S. Dist. LEXIS 2116, 42 U.S.P.Q.2d (BNA) 1161 (E.D. Va. 1997); *affd.* 170 F.3d 449, 1999 U.S. App. LEXIS 4179, 50 U.S.P.Q.2d 1065 (4<sup>th</sup> Cir. 1999). See the case note by Seitz (1999) 113-159 and also the discussions by Lee (2002) 707-710 and Garde TV "The 'Whittling Away' of the Federal Trademark Dilution Act" (2003) *International Review of Industrial Property and Copyright Law* 614 at 621-622.

<sup>437</sup> *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 1999 U.S. App. LEXIS 20786, 51 U.S.P.Q.2d (BNA) 1882 (2<sup>nd</sup> Cir. 1999).



The district court found that Ringling's mark was famous and adopted by Utah after it had become famous. The only remaining question was whether there had been dilution of the mark. The court was of the opinion that this can be shown by proof that the use of the mark by the junior user caused *less of a demand* for the products or services bearing the famous mark. Ringling admitted that a lessening of demand did not occur. They used survey evidence to show a mental association between the two marks as proof of dilution.<sup>438</sup> The court, however, held that a mental association alone will not be enough for a finding of dilution. The court further said that the survey provided no direct evidence that Ringling's mark had actually been diluted and did in any case not support a finding of dilution. The district court also rejected their claim under the "Sweet Test".

Ringling Brothers appealed to the Circuit Court. This court basically agreed with the district court's findings. It required proof of (1) a sufficient similarity between the marks to bring about an instinctive mental association which (2) is the effective cause (3) of actual harm to the famous mark's economic value or in other words a lessening of the mark's selling power.<sup>439</sup> The court thus required actual dilution and not merely a likelihood of dilution. What it was looking for was actual harm to the senior mark's selling power. The court noted that state statutes generally speak of likelihood of dilution, while the federal law does not. The state courts thus required only a likelihood of a mental association and/or resulting harm for a finding of dilution.<sup>440</sup> Section 43(c) of the Federal Trademark Dilution Act declares that the owner of a famous mark shall be

<sup>438</sup> See *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel* 955 F.Supp. 605 at 616, 1997 U.S. Dist. LEXIS 2116, 42 U.S.P.Q.2d (BNA) 1161 (E.D. Va. 1997). The survey used here is described by Barber WG "How To Do a Trademark Dilution Survey (or Perhaps How Not To Do One)" (1999) 89 *The Trademark Reporter* 616 at 624 as "the best-reasoned and most instructive guidance to date on how to properly design a dilution survey". For detail on the survey used, see Pokotilow & Fefferman (2001) 1163-1165.

<sup>439</sup> *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel* 170 F.3d 449 at 453, 1999 U.S. App. LEXIS 4179, 50 U.S.P.Q.2d 1065 (4<sup>th</sup> Cir. 1999).

<sup>440</sup> Different approaches to solve the problem of proof were used by state courts. Firstly, some courts required proof of consumer confusion, although this is against the exact language of the statutes. Secondly, factors such as those formulated in the "Sweet Test" were used to determine the likelihood of dilution. In the third place, likelihood of harm was presumed if there was sufficient similarity of the marks. The last approach, which only required "sufficient similarity" interpreted the state statutes as creating property rights in gross in trade marks. See *Ringling Bros.-Barnum & Bailey Combined*



entitled to an injunction against another's use of the mark, "if such use .... causes dilution of the distinctive quality of the famous mark... ." Hence, according to the court, the federal law requires "actual dilution". Furthermore, by defining dilution<sup>441</sup> as "the lessening of the capacity of a famous mark, to identify and distinguish goods or services", the Act makes it clear that its aim is to protect against the loss of the selling power of the mark and not against loss of distinctiveness, unlike the state statutes.<sup>442</sup> To protect only distinctiveness would amount to giving a property right in gross for certain trade marks, according to the court, because commercial use will be enjoined simply on the basis of similarity of marks. The court also saw itself bound to the Supreme Court's "plain meaning" rule.<sup>443</sup>

The court also looked at the arguments of those who believe that the Federal Act requires only a threat of future economic harm. This contention focuses on the word "capacity" in the definition of dilution. The argument runs that the word "capacity" indicates the ability of the mark to identify and distinguish over future time, even if there was not yet any lessening of that capacity. This, according to the court, contradicts the meaning and use of the word in the Act.<sup>444</sup> It held that "capacity" in its context refers to "former capacity". The words "will" or "may" is nowhere used and furthermore the Act also

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*Shows, Inc. v. Utah Division of Travel* 170 F.3d 449 at 457, 1999 U.S. App. LEXIS 4179, 50 U.S.P.Q.2d 1065 (4<sup>th</sup> Cir. 1999).

<sup>441</sup> Lanham Act § 45, 15 USC § 1127. See Chapter 4.7.1 "Definition of Dilution in the Act" *supra*.

<sup>442</sup> Kim (2001) 757 and Edgcombe (2002) 1264 also believe that the Federal Trademark Dilution Act protects the selling power of the mark rather than its distinctiveness. Ruwe (2002) 1196 criticises this statement. She believes that this claim is not found within the text of the Act. Kera DJ & Davis TH "Annual Review: A. United States: The Fifty-Second Year of Administration of the Lanham Trademark Act of 1964" (2000) 90 *The Trademark Reporter* 126 at 131 also note that this theory is "without foundation in the Act's express text".

<sup>443</sup> The "plain meaning" rule states that "[I]f words convey a definite meaning, which involves no absurdity, nor any contradiction of other parts of the instrument, then that meaning, apparent on the face of the instrument, must be accepted." Voss (2000) 276-277, however shows that by creating an uncompensable injury, by requiring actual harm, while the Act only provides for damages in the rare cases where there was willful dilution, the court's interpretation leads to an absurdity. The court also required evidence of economic harm, but acknowledged that this might be impossible, thereby leaving the plaintiff with no remedy. This is also an absurd result. Therefore the "plain meaning" rule should not be followed. The court's approach is also called the "Textualist Approach". The court believed that "a purely textual interpretation of the FTDA carries the greatest interpretative weight". See Lee (2002) 714.

<sup>444</sup> See *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel* 170 F.3d 449 at 460, 1999 U.S. App. LEXIS 4179, 50 U.S.P.Q.2d 1065 (4<sup>th</sup> Cir. 1999).



makes provision for monetary relief, not only injunctive relief.

The Fourth Circuit court also rejected the “Sweet Test” to prove dilution under the Federal Act, as the test was formulated to prove “likelihood of dilution”, not actual dilution. It nevertheless recognised that factors such as mark similarity and degree of renown of the senior mark may be relevant under the Federal Act.<sup>445</sup>

According to the court evidence of quantifiable economic harm and causation of that harm is required by the federal statute. The court continued to describe how actual dilution could be proved, as actual harm cannot be presumed.<sup>446</sup> The most obvious proof will be proof of actual loss of revenues due to repeating use by the junior user. A skillfully constructed consumer survey can also be used, but there must be consumer impressions from which actual harm and cause might be rationally inferred.<sup>447</sup> Indirect evidence can be attained from relevant contextual factors such as similarity of marks, the renown of the famous mark and the extent of the junior mark’s coverage.<sup>448</sup> Ringling Brothers survey evidence was designed only to show mental association and not actual economic harm and therefore failed to prove damage to their selling power. The Fourth Circuit concluded that this concept of “actual dilution” is a “substantively viable one”.

Some other courts have adopted the *Ringling* standard, but in other decisions it was rejected. The Seventh Circuit, in the case of *Syndicate Sales, Inc. v. Hampshire Paper*,<sup>449</sup> apparently adopted the *Ringling* standard. They required, *inter alia*, that there must be sufficient evidence that “the infringer diluted the mark” to succeed on a dilution claim,

<sup>445</sup> See *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel* 170 F.3d 449 at 463, 1999 U.S. App. LEXIS 4179, 50 U.S.P.Q.2d 1065 (4<sup>th</sup> Cir. 1999).

<sup>446</sup> The court admitted that it could be difficult to prove actual harm, but that is no reason for a presumption that it has occurred. See *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel* 170 F.3d 449 at 460, 464-465, 1999 U.S. App. LEXIS 4179, 50 U.S.P.Q.2d 1065 (4<sup>th</sup> Cir. 1999).

<sup>447</sup> Kim (2001) 748-750 also proposes the use of a reliable consumer survey and proof of loss of revenues to prove actual dilution. Edgcombe (2002) 1270 says that “mark holders can use survey data quite effectively to show proof of dilution”. Contrary to this viewpoints, Lee (2002) 716 avers that these methods are inappropriate as they are “inaccurate, expensive, and prone to manipulation”.

<sup>448</sup> These factors are suspiciously similar to the “Sweet Factors” rejected by the court.

<sup>449</sup> *Syndicate Sales, Inc. v. Hampshire Paper Corporation* 192 F.3d 633, 1999 U.S. App. LEXIS 21884, 52 U.S.P.Q.2d (BNA) 1035 (7<sup>th</sup> Cir. 1999). See Chapter 4.10.2 “Famous Marks” *supra* for the facts of this case.



then citing, amongst others, *Ringling Brothers v. Utah*.<sup>450</sup> Also the Fifth Circuit endorsed the requirement of actual harm in the case of *Westchester Media v. PRL USA Holdings, Inc.*<sup>451</sup> PRL was founded by Ralph Lauren in 1967 and the well-known POLO trade marks were registered. The POLO magazine was founded by Fleet Street in 1975 and registration was granted for the POLO mark in 1992. Ralph Lauren and PRL knew of the magazine and even advertised in it. Fleet Street began a second publication under the title POLO LIFE in 1989 and also gained registration for that mark. Westchester purchased the assets of Fleet Street in 1997 and changed the “old” POLO magazines, as the court referred to them, into a “new” POLO magazine, with the tagline “Adventure • Elegance • Sport”. Westchester advertised the magazine as “not about the sport, but rather about an adventurous approach to living life”. PRL objected to the title of the “new” POLO magazine. Westchester filed a declaratory judgment action before the US District Court for the Southern District of Texas requesting a determination that its use of the POLO mark for its magazine did not infringe PRL’s POLO trade mark for wearing apparel, accessories, home furnishings and fragrances. PRL counterclaimed for trademark infringement and dilution.

Infringement was found by the lower court and affirmed by the Fifth Circuit. The lower court issued a permanent injunction requiring Westchester to cease publishing the magazine under the POLO trade mark, but the Fifth Circuit remanded the case for the district court to review the injunction. They thought that a disclaimer on the magazine would be efficient.<sup>452</sup> Regarding the dilution claim, it was accepted that the POLO mark was famous and distinctive and had become famous before Westchester adopted the mark. Regarding the standard of proof required for dilution, the Fifth Circuit followed the ruling of the Fourth Circuit in the *Ringling Brothers* case and required proof of actual dilution.<sup>453</sup> They indicated that this standard accorded with the plain meaning of the

<sup>450</sup> See also Seitz (1999) 136. He cites the *Syndicate* case as strong authority for the *Ringling* standard.

<sup>451</sup> *Westchester Media v. PRL USA Holdings, Inc.*, 214 F.3d 658 (5<sup>th</sup> Cir. 2000).

<sup>452</sup> For the suitability of a disclaimer as remedy in the case of a dilution claim, see Chapter 4.8 “The Trademark Amendments Act of 1999” and especially fn 327 *supra*.

<sup>453</sup> *Westchester Media v. PRL USA Holdings, Inc.* 214 F.3d 658 at 670 (5<sup>th</sup> Cir. 2000). This standard was echoed by the judge in the case of *Advantage Rent-A-Car, Inc. v. Enterprise Rent-A-Car, Co.*, 238 F.3d 378 at 380 (5<sup>th</sup> Cir. 2001). Gunn ML “United States: First Amendment Concerns Regarding Magazine



statute and also distinguish it from the “likelihood of dilution” phraseology of the state statutes. PRL presented no evidence of actual harm and therefore the court found no dilution of the POLO trade mark.

Some district courts also adopted the requirement of “actual dilution”.<sup>454</sup> If this “actual dilution” interpretation prevails, it is certain that the future application of dilution will differ greatly from that seen under state dilution laws over the past five decades.

The Second Circuit Court, in the case of *Nabisco, Inc. v. PF Brands, Inc.*,<sup>455</sup> however rejected the interpretation of the *Ringling* court that actual harm is required for a finding of dilution. Pepperidge Farm, the defendant has a trade mark for an orange, bite-sized, cheddar cheese-flavoured, goldfish-shaped cracker. In 1998 Nabisco, the appellant, entered into an agreement with Nickelodeon Television Network for a joint promotion of their new “CatDog”-cartoon. Nabisco developed a CatDog snack consisting of small orange, cheese-flavoured crackers in the shape of the CatDog character, a bone and a fish. The fish-shaped crackers, although somewhat larger and flatter, closely resembled those of Pepperidge Farm’s GOLDFISH crackers. The district court, after applying the “Sweet Test”, found for Pepperidge on the dilution claims and Nabisco appealed to the Second Circuit.

The *Nabisco* court interpreted the Act simply to require a “likelihood of success” that the plaintiff’s mark will be diluted, using an expansive multi-factor test. They constructed a

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Titles and Actual Harm Required for Dilution – The Fifth Circuit Court of Appeals Takes a Stand” (2001) 1 *European Intellectual Property Review* 51 at 53 calls this “an additional stringent element to the Federal Trademark Dilution Act... .”

<sup>454</sup> See the discussion in Seitz (1999) 137-143. He cites the following cases: *Carnival Corp. v. SeaEscape Casino Cruises, Inc.*, 74 F.Supp.2d 1261 (S.D. Fla. 1999); *World Gym Licensing, Ltd. v. Fitness World, Inc.* 47 F.Supp.2d 614 (D. Md. 1999); *American Cyanamid Co. v. Nutraceutical Corp.*, 54 F. Supp.2d 379 (D. N.J. 1999); *Playboy Enterprises, Inc. v. Netscape Communications Corp.*, 55 F. Supp.2d 1070 (C.D. Cal. 1999); *National Football League Properties, Inc. and Green Bay Packers, Inc. v. Prostyle, Inc.*, 57 F.Supp.2d 665 (E.D. Wis. 1999). See also the short discussion of the *American Cyanamid* and *Playboy* cases in Ruwe (2002) 1181-1183.

<sup>455</sup> *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 1999 U.S. App. LEXIS 20786, 51 U.S.P.Q.2d (BNA) 1882 (2<sup>nd</sup> Cir. 1999). See further on this case Seitz (1999) 143-146; Voss (2000) 273-275; Lee (2002) 710-712; Garde (2003) 623-624.



non-exhaustive, non-exclusive ten-factor test for establishing a likelihood of dilution.<sup>456</sup> An eleventh factor, whether the junior user acted with predatory intent, was also considered later in the opinion.<sup>457</sup> Disagreeing with the interpretation of the Federal Act in *Ringling Brothers v. Utah*, the Second Circuit made the following comments. To require evidence of "actual loss of revenues"<sup>458</sup> or "skillfully constructed consumer surveys"<sup>459</sup> as proof of actual dilution, places "an arbitrary and unwarranted limitation on the methods of proof". The *Nabisco* court held the opinion that dilution can be inferred from circumstantial evidence or "contextual factors", such as similarity of marks. Contextual factors have already been used to establish infringement for a long time.<sup>460</sup>

To the extent that the *Ringling* court in addition required that the junior user must already be established in the market before the senior user could seek an injunction, the *Nabisco* court also disagreed. Although the Act uses the present tense "causes dilution", the

<sup>456</sup> The factors considered by the court were the following: distinctiveness; similarity of the marks; proximity of the products and likelihood of bridging the gap; interrelationship among the distinctiveness of the senior mark, the similarity of the junior mark and the proximity of the products; shared consumers and geographic limitations; sophistication of the consumers; actual confusion; adjectival or referential quality of the junior use; harm to the junior user and delay by the senior user; and effect of senior's prior laxity in protecting the mark. The court rejected the "Sweet Test" used by the district court as being too much of a limitation in the early interpretation of the Federal Act. "We believe it is by far premature for federal courts to declare and close the list of factors that will be deemed pertinent in cases under the new Federal Act." See *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208 at 217-222, 227, 1999 U.S. App. LEXIS 20786, 51 U.S.P.Q.2d (BNA) 1882 (2<sup>nd</sup> Cir. 1999). Voss (2000) 267 criticises the inclusion of likelihood of confusion factors in this test, because this would mean that dilution would only serve as a fallback for those who cannot meet the traditional likelihood of confusion test.

<sup>457</sup> The *Nabisco*-factors was also considered and applied in another Second Circuit case, *Federal Express Corp. v. Federal Espresso, Inc.*, 201 F.3d 168, 53 U.S.P.Q.2d 1345 (2<sup>nd</sup> Cir. 2000).

<sup>458</sup> The court explained that in the case of a famous mark, which has been continually diluted for a prolonged period of time, it would be extremely difficult to show diminished revenues. There would be no way to measure what the revenues would have been if the mark had not been diluted. It would also be difficult to prove that the loss of revenues was due to the dilution of the mark by the junior user, as there might be other influences as well. See *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208 at 223-224, 1999 U.S. App. LEXIS 20786, 51 U.S.P.Q.2d (BNA) 1882 (2<sup>nd</sup> Cir. 1999). Seitz (1999) 155-156, however, suggests that one can look back at revenues during the time period when the junior user first appropriated the famous mark and if there is a gradual shift in revenue from the senior user to the junior user, it would indicate dilution.

<sup>459</sup> Consumer surveys were regarded as expensive, time-consuming, easily manipulated and unreliable. *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208 at 223-224, 1999 U.S. App. LEXIS 20786, 51 U.S.P.Q.2d (BNA) 1882 (2<sup>nd</sup> Cir. 1999). Again Seitz (1999) 156 differs. According to him surveys carried out by independent third parties and conducted properly will be accepted by courts.

<sup>460</sup> The court, however, ignores the significant differences between the state dilution statutes and the Federal Act, by simply assuming that they set the same requirements, despite differences in language. See Voss (2000) 280.



*Nabisco* court felt that such a literal interpretation would in the first place defeat the object of the statute. The court read the statute as intending to provide for an injunction to prevent the harm before it occurs.<sup>461</sup> Secondly, it would leave the senior user unable to obtain compensation. The statute only provides for injunctive relief and no damages, unless there was willfulness, thus leaving the senior user in most cases with an injury that can never be compensated. In the third place, the junior user would also be left in a rather disadvantageous position. He will have to invest huge amounts of money to launch and put his product on the market, without knowing whether his use will be enjoined later.<sup>462</sup> The court does not foresee that their interpretation would create a property right in gross in trade marks.<sup>463</sup>

The ruling in *Nabisco* was followed by another Second Circuit Court in *Federal Express Corp. v. Federal Espresso*,<sup>464</sup> as well as by the Third Circuit Appeal Court in the *Times Mirror* case.<sup>465</sup> Also the Sixth Circuit, in *V Secret Catalogue, Inc. v. Moseley*,<sup>466</sup> and the Seventh Circuit in *Eli Lilly & Co. v. Natural Answers, Inc.*<sup>467</sup> followed the *Nabisco* ruling, although in the latter case only some of the reasoning was adopted.

<sup>461</sup> Seitz (1999) 155 criticises the court on this point. He believes that the *Nabisco* court ignores the language of the statute.

<sup>462</sup> Seitz (1999) 156 feels that an "actual dilution" provision would rather benefit the junior user, as he now gets the opportunity to place his mark in commerce. Only if it actually dilutes a famous mark, will it be enjoined. Under the likelihood of dilution standard many marks that may not actually dilute, can be enjoined. This view is supported by Kim (2001) 758-759.

<sup>463</sup> *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208 at 224 fn 6, 1999 U.S. App. LEXIS 20786, 51 U.S.P.Q.2d (BNA) 1882 (2<sup>nd</sup> Cir. 1999).

<sup>464</sup> *Federal Express Corp. v. Federal Espresso, Inc.*, 201 F.3d 168, 2000 U.S. App. LEXIS 96, 53 U.S.P.Q.2d (BNA) 1345 (2<sup>nd</sup> Cir. 2000). An overnight shipper, doing business under the FEDERAL EXPRESS trade mark brought action alleging *inter alia* dilution against operators of a coffee shop, using the name FEDERAL ESPRESSO. The Circuit Court, after discussing the application of the ten factor test in *Nabisco*, found that Federal Express "may well ultimately prevail on its dilution claim, and therefore be entitled to a permanent injunction". However, this does not mean that it was "presumptively entitled to a preliminary injunction". The court said that dilution (irreparable harm) was not imminent and that a preliminary injunction was thus not needed. There are also a number of cases decided by district courts in the Second Circuit, which followed the *Nabisco* case.

<sup>465</sup> *Times Mirror Magazines Inc. v. Las Vegas Sports News*, 212 F.3d 157, 2000 U.S. App. LEXIS 8553 (3<sup>rd</sup> Cir. 2000). District courts in the Seventh and Eleventh Circuit also followed the *Nabisco* ruling.

<sup>466</sup> *V Secret Catalogue, Inc. v. Moseley*, 259 F.3d 464 (6<sup>th</sup> Cir. 2001), but see *Moseley v. V Secret Catalogue, Inc.*, 123 S. Ct. 1115 (2003), discussed *infra*.

<sup>467</sup> *Eli Lilly & Co. v. Natural Answers, Inc.* 233 F.3d 456 (7<sup>th</sup> Cir. 2000).



In *Times Mirror*<sup>468</sup> the plaintiff used the mark THE SPORTING NEWS as the title of its weekly sports publication. The defendant published a magazine on sports wagering and started to use the title LAS VEGAS SPORTING NEWS.<sup>469</sup> A claim was filed *inter alia* for trade-mark dilution. The Circuit Court affirmed the preliminary injunction granted by the district court. The court agreed with the six factor “Sweet Test”, but incorporated the additional factors formulated in the *Nabisco* case.<sup>470</sup> The court concluded that irreparable harm may be proven without showing actual dilution.

The *V Secret* case was a classic example of tarnishment.<sup>471</sup> Victoria’s Secret instituted action for infringement and dilution of the VICTORIA’S SECRET trade mark for women’s lingerie, clothing and accessories by the mark VICTOR’S LITTLE SECRET used on *inter alia* sex toys. The court believed that an injunctive remedy is needed *before* the harm occurs, as dilution is an infection, which, if allowed to spread, would destroy the mark’s value.<sup>472</sup> The court also found that consumers would make a mental association between the two stores. After a detailed discussion of both the *Ringling Brothers* case and the *Nabisco* case, the Circuit Court adopted the *Nabisco* test.<sup>473</sup>

In *Eli Lilly*<sup>474</sup> the court also accepted that a likelihood of dilution was a sufficient level of proof under the Federal Trademark Dilution Act. Eli Lilly sells the popular prescription drug, PROZAC. Natural Answers develops herbal dietary supplements and sells them exclusively on their website. They specialise in natural alternatives for well-known drugs

<sup>468</sup> *Times Mirror Magazines Inc. v. Las Vegas Sports News*, 212 F.3d 157, 2000 U.S. App. LEXIS 8553 (3<sup>rd</sup> Cir. 2000).

<sup>469</sup> Previously the title was LAS VEGAS SPORTS NEWS, but when defendant took over as publisher, it opted to change the title.

<sup>470</sup> The district court only used the “Sweet Factors”. See the summary at 169 of the Circuit Court’s decision.

<sup>471</sup> *V Secret Catalogue, Inc. v. Moseley*, 54 U.S.P.Q.2d 1092 (W.D. Ky. 2000); *V Secret Catalogue, Inc. v. Moseley*, 259 F.3d 464 (6<sup>th</sup> Cir. 2001); *Moseley v. V Secret Catalogue, Inc.*, 123 S. Ct. 1115 (2003). See Chapter 4.10.7 “Cases on Tarnishment” *infra* for the facts of this case.

<sup>472</sup> *V Secret Catalogue, Inc. v. Moseley*, 259 F.3d 464 at 476 (6<sup>th</sup> Cir. 2001). Compare this to the reasoning of the court in the *Federal Express* case, where the court said that although the gradual erosion of a mark should be prevented, the “likely pace of such an erosion” should be taken into account. The products, coffee and an overnight delivery service, were dissimilar, there was little likelihood of confusion, plaintiff was a vast organisation, while defendants were three people owning two coffee shops. The court thus decided that dilution was not imminent and denied a preliminary injunction.

<sup>473</sup> But see *Moseley v. V Secret Catalogue, Inc.*, 123 S. Ct. 1115 (2003), discussed *infra* in this section.

<sup>474</sup> *Eli Lilly & Co. v. Natural Answers, Inc.*, 233 F.3d 456 (7<sup>th</sup> Cir. 2000).



and started to sell HERBROZAC. The district court, as well as the Circuit Court found that the plaintiff was not required to show actual dilution and found that there was a likelihood of dilution of the PROZAC mark. Only two factors were used to determine the likelihood of dilution, namely the similarity between the two marks and the renown of the senior mark. The court considered the *Nabisco* factors, but rejected most of them.<sup>475</sup>

In two earlier decisions the requirement of actual harm was also rejected. The First Circuit Court of Appeals addressed the issue in *I.P. Lund v. Kohler Co.*<sup>476</sup> The district court enjoined Kohler from selling the Kohler Falling Water faucet as it diluted the trade dress of the VOLA faucet of the plaintiff, Lund, on the basis that Lund fulfilled the requirement of the Federal Act to show that Kohler's product caused a lessening of demand for its product. The appeal court rejected this requirement that a "lessening of demand" must be shown. It reasoned that showing of actual harm was not required.<sup>477</sup> The "Sweet Factors" were also rejected and as in the *Eli Lilly* case, the court focused on the similarity of the marks and the fame of the senior mark.<sup>478</sup> The court found no likelihood of success under the dilution claim and remanded the case. In the Ninth Circuit decision of *Panavision v. Toeppen*,<sup>479</sup> the court defined dilution by blurring as "creating the possibility that the mark will lose its ability to serve as a unique identifier", thereby also rejecting the requirement of actual dilution. Seitz, however, noted that the court relied upon cases decided under state dilution laws.<sup>480</sup> The court in *Avery Dennison Corp. v. Jerry Sumpton*<sup>481</sup> in turn cited *Panavision v. Toeppen* as authority for a finding that the Federal Act requires only a "likelihood of dilution".

<sup>475</sup> See the short discussion in Shire (2001) 1128.

<sup>476</sup> *I.P. Lund Trading ApS v. Kohler Co.* 163 F.3d 27, 49 U.S.P.Q.2d 1225 (1<sup>st</sup> Cir. 1998).

<sup>477</sup> The court was also concerned that the Federal Trademark Dilution Act might not even be applicable to product design trade dress.

<sup>478</sup> The court emphasised that the Dilution Act requires a "heightened fame standard". The court found at 47 that, although probably famous in the niche market of interior design and high-end bathroom fixtures, the VOLA faucet did not have sufficient fame to meet the burden set by the Act. The *Lund* approach was followed in *Hasbro, Inc. v. Clue Computing, Inc.*, 66 F.Supp.2d 117, 52 U.S.P.Q.2d 1402 (D. Mass. 1999), *affd.* 232 F.3d 1, 56 U.S.P.Q.2d 1766 (1<sup>st</sup> Cir. 2000).

<sup>479</sup> *Panavision Int'l, L.P. v. Toeppen*, 141 F.3d 1316, 1998 U.S. App. LEXIS 7557; 46 U.S.P.Q.2d (BNA) 1511 (9<sup>th</sup> Cir. 1998). The judgments in both the *Panavision* and *Lund* cases are criticised by Marroletti (1999) 677-680; 685-687.

<sup>480</sup> See Seitz (1999) 148.

<sup>481</sup> *Avery Dennison Corporation v. Jerry Sumpton*, 189 F.3d 868; 1999 U.S. App. LEXIS 19954; 51 U.S.P.Q.2d (BNA) 1801; 99 Cal. Daily Op. Service 6795; 99 Daily Journal DAR 8723 (9<sup>th</sup> Cir. 1999).



Scholars commenting on the interpretation of the Federal Trademark Dilution Act of 1995 also hold different views on the requirements for a finding of dilution. Seitz supports the view of the *Ringling* court. He concludes that “[w]hile this standard may be difficult to satisfy, it is the correct one as dictated by FTDA’s language and history.”<sup>482</sup> He sees this as the proper standard intended by Congress. He stresses that the Act uses the words “causes dilution”. According to him, Congress deliberately left out the word “likelihood”, as they had the examples of numerous state laws requiring “likelihood of dilution” before them when they drafted the Federal Act.<sup>483</sup> The Federal Act in section 45, defines dilution as a “lessening of the capacity of a famous mark”. To read into this phrase the word “future capacity” will, according to Seitz and Kim, take it too far from the plain meaning of the statute.<sup>484</sup> They argue that the Act refers to “present capacity” and that this language is in line with the “causes dilution” language of the Act.<sup>485</sup> Seitz also criticises the interpretation and findings of the *Nabisco* court.<sup>486</sup> Furthermore, he states that many cases supporting the “likelihood of dilution” requirement “improperly” relied on state dilution cases decided under state laws.<sup>487</sup>

Although Edgecombe also supports the actual dilution standard of the *Ringling* court,<sup>488</sup> he notes that the legislative history of the Act suggests that Congress may have intended a likelihood of dilution standard.<sup>489</sup> The House Report<sup>490</sup> explains that the dilution

<sup>482</sup> Seitz (1999) 153. Another commentator who without reservation agrees with Seitz in his reasons for accepting the actual harm requirement, is Kim (2001) 720, 747-760. See also Edgecombe (2002) 1261-1263, 1267-1269.

<sup>483</sup> See also Kim (2001) 752. Edgecombe (2002) 1267 emphasises the use of the words “causes”, the present tense active form of “cause” and “lessening” the present tense of “lessen”. He also indicates at 1268 that while the statute speaks of a “likelihood of confusion” it never uses the phrase “likelihood of” to modify “dilution”. The implication is that the phrase “causes dilution” means just that and cannot be interpreted to mean “likelihood of dilution”.

<sup>484</sup> Seitz (1999) 154; Kim (2001) 753-754.

<sup>485</sup> In *Ringling Bros.* at 460 “capacity” was interpreted as “former capacity”, taking it perhaps too far in the opinion of Edgecombe (2002) 1267 (“reading the text of the FTDA to require past harm stretches the language almost as much as does reading it to require future harm.”)

<sup>486</sup> See discussion of the *Nabisco* case *supra* and Seitz (1999) 155.

<sup>487</sup> Seitz (1999) 157. He specifically refers to *Panavision v. Toeppen supra* which cited *Ringling Bros. v. BE Windows*, which in turn cited *Deere v. MTD Products*, decided before the passing of the Federal Act.

<sup>488</sup> Edgecombe (2002) 1272.

<sup>489</sup> Edgecombe (2002) 1269.

<sup>490</sup> HR Rep No 104-373, 3 (1995).



concept recognises the “substantial investment” the owner has made in the “commercial value and aura of the mark itself”. The “aura of the mark itself” refers to the “uniqueness” of the mark, which is protected by the likelihood of dilution standard. The Report further states that “dilution is an infection, which if allowed to spread, will inevitably destroy the advertising value of the mark”. This excerpt indicates that a dilution action could be initiated before any harm has occurred. But Edgecombe contends that this may contemplate that some initial harm, however small, might be necessary to initiate an action.<sup>491</sup> He believes that an actual harm standard will prevent dilution from destroying the infringement doctrine. There should be no overlap between the two actions.<sup>492</sup>

Marroletti<sup>493</sup> also strongly supports the *Ringling Bros.* case, which *inter alia* required proof of actual dilution. He recommends a well-crafted survey as proof of actual dilution.<sup>494</sup> He feels that the court “created a workable standard for the practical application of a notoriously elusive concept”. The cost of relief, if granted in cases of a likelihood of dilution, outweighs the benefit to the small number of plaintiffs who really should succeed with a dilution claim.<sup>495</sup> According to Marroletti the granting of a preliminary injunction under a likelihood of dilution standard in effect prevents competitors from entering the market.<sup>496</sup>

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<sup>491</sup> Edgecombe (2002) 1269.

<sup>492</sup> Edgecombe (2002) 1274.

<sup>493</sup> Marroletti (1999) 687-688.

<sup>494</sup> Marroletti (1999) 689, 690. He admits that such survey evidence would likely be difficult to obtain. Kim (2001) 748-749 also believes actual dilution can be shown through a reliable consumer survey. In the case of blurring a survey can be evidence of a mental association between the senior and junior mark. It must also show “further consumer impressions from which actual harm and cause might rationally be inferred”. Barber (1999) 629-631 suggests that a survey comparing “the strength or association of the plaintiff’s mark *absent the alleged diluting use* with its strength/association in the *presence of the alleged diluting use* will give the best indication of whether there was dilution or not”. (emphasis added) He calls it a Comparison Test. See also Pokotilow & Fefferman (2001) 1150-1183 for a detailed analysis of survey evidence in case law and suggestions for the future use of survey evidence in trade-mark dilution cases. They are in favour of a recognition survey to determine trade-mark fame. See 1156-1157.

<sup>495</sup> Marroletti (1999) 688.

<sup>496</sup> See his explanation on (1999) 689. See also Kim (2001) 757-759.



He strongly criticises the cases of *Panavision v. Toepen*<sup>497</sup> and *I.P. Lund*.<sup>498</sup> In his view, the court in the *Panavision* case based its reasoning on a traditional infringement analysis, which required consumer confusion as to source of origin. In this case, Marroletti argues, there was classic source confusion, which did not require the use of the dilution theory.<sup>499</sup> With regard to the *Lund* case, he criticises the use of the six-factor "Sweet Test" to determine dilution as these factors are more indicative of whether or not there is a likelihood of confusion.<sup>500</sup> The "Sweet Factors" were moreover established in a case under the New York dilution statute, which differs in several respects from the Federal Trademark Dilution Act.<sup>501</sup>

McCabe describes the requirement of actual harm as one of the most "egregious misapplications of dilution law".<sup>502</sup> He believes that the *Ringling Bros.* court erred in requiring actual harm to prove the dilution claim. To require actual harm implies that dilution results in immediate injury, which is not true. He also feels that the court read the dilution statute too literally.<sup>503</sup> He also criticised the *Nabisco* decision for their finding that although confusion was not necessary for a finding of dilution, it could be "highly probative" of dilution.<sup>504</sup> Dilution and traditional infringement, which require evidence of consumer confusion, require two separate states of mind. The insertion of a confusion element into a dilution claim blurs the distinction between the two.

Shire also submits that the test used in *Nabisco* and subsequent cases is wrong, because it virtually equates the tests for dilution and infringement.<sup>505</sup> Dilution and infringement address two different harms and furthermore the Act provides that competitive proximity and likelihood of confusion should be irrelevant to the dilution inquiry. If the tests for

<sup>497</sup> *Panavision Int'l, L.P. v. Toepen*, 141 F.3d 1316, 1998 U.S. App. LEXIS 7557; 46 U.S.P.Q.2d (BNA) 1511 (9<sup>th</sup> Cir. 1998).

<sup>498</sup> *I.P. Lund Trading ApS v. Kohler Co.* 163 F.3d 27, 49 U.S.P.Q.2d 1225 (1<sup>st</sup> Cir. 1998).

<sup>499</sup> Marroletti (1999) 685-686.

<sup>500</sup> Marroletti (1999) 686-687; Ruwe (2002) 1194-1195.

<sup>501</sup> See Ruwe (2000) 1194.

<sup>502</sup> McCabe (2000) 1860.

<sup>503</sup> McCabe (2000) 1861.

<sup>504</sup> McCabe (2000) 1864.

<sup>505</sup> Shire (2001) 1130.



dilution and infringement are basically the same, he questions the need for the Federal Trademark Dilution Act.<sup>506</sup> Shire therefore strongly supports the two-factor *Eli Lilly* test.

Voss also criticises both the *Ringling* and *Nabisco* approaches.<sup>507</sup> Neither approach properly balances the need for a dilution remedy with the need for adequate limitations. He sees the “actual harm” requirement of the *Ringling* case as a “barrier insurmountable by all but the strongest”.<sup>508</sup> He criticises the application of the “plain meaning” rule<sup>509</sup> in the interpretation of the dilution section, and views the outcome as being in conflict with the intent and purpose of the Act.<sup>510</sup> He finds the results reached by the court’s “plain meaning” interpretation absurd, leaving the plaintiff with a substantial uncompensated injury and even no remedy at all.<sup>511</sup> The gradual type of harm caused by dilution is, according to him, not cured by requiring proof of actual harm.<sup>512</sup> In the light of this absurdity, he also supports the interpretation of “capacity” as “future capacity”.<sup>513</sup> In his final conclusion, he, however, leaves room for the application of the dilution remedy in cases of actual harm proved by evidence of actual economic loss.<sup>514</sup> The test in *Nabisco*, on the other hand, he views as one which “unnecessarily lengthens and obfuscates the dilution inquiry”, but which is still a significant improvement over the *Ringling* test.<sup>515</sup> The use of multiple relevant factors avoids the problem of no remedy and also emphasises the fact that the dilution concept is dynamic, by signifying that different factors may be relevant in different cases. The court’s emphasis on distinctiveness is also

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<sup>506</sup> Shire (2001) 1131.

<sup>507</sup> Voss (2000) 275-276 and also 267.

<sup>508</sup> Kim (2001) 760 believes exactly the opposite. He sees the actual harm requirement as preventing the “‘causing dilution’ requirement in the FTDA from becoming a malleable standard that can be loosely applied at the will of the judiciary”.

<sup>509</sup> For the definition of the “plain meaning” rule, see fn 443 *supra* and Voss (2000) 276-277.

<sup>510</sup> He shows that nowhere in the legislative history of the 1988 dilution bill, the Dilution Act, the reports of the Trade Mark Commission or the House Report of Congress is there any suggestion that actual consummated harm must be proved. Only the fame and distinctiveness requirements are discussed repeatedly. See Voss (2000) 278-279. See also S. Rep. No. 100-515, 41-45 (1988) which uses the following words: “reduces the public’s perception that the mark signifies something unique, singular or particular”...

<sup>511</sup> See also Lee (2002) 715.

<sup>512</sup> See Voss (2000) 277. See also the criticism of McCabe (2000) 1861 discussed *supra*, but compare Kim (2001) 755-759.

<sup>513</sup> Voss (2000) 278.

<sup>514</sup> Voss (2000) 287.

<sup>515</sup> See Voss (2000) 276, 279-282.



more in line with the plain meaning of the statute and the history of the concept. However, the confusion factors used in the *Nabisco* test are irrelevant to dilution and frustrate the inquiry.<sup>516</sup> It is also disturbing, because it makes dilution seem as a fallback for traditional infringement, which it was never intended to be.

Voss then argues for an approach “which rigorously applies the key dilution inquiries into fame, distinctiveness, similarity, and mental association”.<sup>517</sup> This entails the use of a relevant set of contextual factors, from which dilution can be inferred. This is consistent, according to Voss, with the meaning, intent and purpose of the Act. He stressed the importance of the fame requirement to prevent over-protection of trade marks. Only truly famous marks should get dilution protection. As distinctiveness is the very attribute that the dilution statute seeks to protect, it is also an important factor.<sup>518</sup>

Another scholar supporting the “likelihood of dilution” standard is Ruwe, who believes this is the optimum standard to apply, because “it best carries out the goals and purpose of the FTDA and can be more easily reconciled with the nature of dilution itself”.<sup>519</sup> She supports the ten factor test of the *Nabisco* decision, because it is merely a suggested list, and not a fixed set of factors that must be applied in every case, but the courts should mold it over time and it strikes a balance for both courts and plaintiffs.<sup>520</sup>

<sup>516</sup> It is especially alarming in the context of trade dress, the context of the *Nabisco* case. See Voss (2000) 280 and fn 101. See also Chapter 3.3 “Traditional Infringement contrasted with Dilution” *supra*, where it is stressed that it is impossible to cause both confusion and dilution in the mind of any one person at the same time. The ten-factor test uses virtually the same factors formulated in the *Polaroid* case and used to determine the likelihood of confusion in traditional trade-mark infringement cases. This, according to Shire (2001) 1126, diminishes the significance of the Federal Act. See further the comparison of the *Nabisco* and *Polaroid* factors in Shire (2001) 1126-1128.

<sup>517</sup> Voss (2000) 283-288.

<sup>518</sup> Voss applies his criteria to both the *Ringling* and *Nabisco* cases. In *Ringling* he finds against dilution as, although the *Ringling* mark was sufficiently famous and possibly sufficiently distinctive, the junior mark was not similar enough to it and there was only a weak-to-moderate showing of mental association. He also feels that the *Nabisco* court could have found against dilution, given the low-to-moderate distinctiveness of the goldfish design, the moderate degree of similarity and lack of evidence of mental association.

<sup>519</sup> Ruwe (2002) 1176, 1197-1199.

<sup>520</sup> Courts have some flexibility as to which factors they apply and plaintiffs have some general guidelines when bringing a claim. See Ruwe (2002) 1199.



Others also see the "actual dilution" test as an exceptionally strict standard for dilution.<sup>521</sup> It makes it practically impossible to establish dilution in all but the most extreme cases.<sup>522</sup> To prove actual dilution, thus, economic harm to the selling power of a mark, may be extremely difficult. The owner of the famous mark will have to show that the use of the other mark has lessened the capacity of the famous mark to identify and distinguish. Gilson also speculates that a consumer survey could be used for this purpose or that the owner of the famous mark could perhaps show loss of revenues, but both will be difficult.<sup>523</sup> He concludes that this standard proposed by the Fourth Circuit is probably just too high.

McCarthy<sup>524</sup> reads the Federal Act as not requiring proof of an actual lessening of the strength of the famous mark. All that is needed is a lessening of the capacity or the ability of the mark to serve as a strong commercial symbol or identifier. He, unfortunately, does not provide further analysis of this statement. For that reason his viewpoint was also rejected by the *Ringling* court.<sup>525</sup> Other writers coming to the same conclusion as McCarthy, are Reichman<sup>526</sup> and Klieger.<sup>527</sup> Reichman states that the Federal Act requires actual dilution "on its face", but due to the use of the word "capacity", showing of a likelihood of dilution will be adequate for a finding of dilution. The mere ability of the junior user's mark to dilute the famous mark is according to him actionable. Klieger also says that according to the plain meaning of the Act, actual dilution is required. But he continues to argue that this will erect an "impenetrable

<sup>521</sup> See Gilson (1999) § 5.12[1][f][v][A] & [B]. Garcia (1995) 515 explains that it is in general more difficult to prove blurring than tarnishment and that to prove actual harm in a blurring context, may be impossible. Swann (1999) 907 fn 4 submits that the actual dilution requirement in *Ringling Bros.* will become the exception to the, what he calls, "better reasoned rule" formulated in *Nabisco*. Kera & Davis (2000) 131 believe that the Fourth Circuit's formulation "turns the entire purpose of the FTDA on its head". They say Congress intended to provide a special degree of protection to famous and distinctive marks.

<sup>522</sup> See Voss (2000) 267. Seitz (1999) 153 also notes that no court using the "actual dilution" requirement has found for the plaintiff.

<sup>523</sup> Gilson (1999) § 5.12[1][f][v][B].

<sup>524</sup> McCarthy (1996) § 24:90 fn 21.

<sup>525</sup> *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel* 170 F.3d 449 at 461 fn 6, 1999 U.S. App. LEXIS 4179, 50 U.S.P.Q.2d 1065 (4<sup>th</sup> Cir. 1999).

<sup>526</sup> Reichman CL "State and Federal Trademark Dilution" (1998) 17 *Franchise Law Journal* 111 at 132.

<sup>527</sup> Klieger (1997) 840-841.



barrier" to any federal dilution claim.<sup>528</sup> He then says: "[o]f course, Congress did not intend to require...a showing of actual dilution." He states that the actual dilution language of the Act, "reveals the degree to which dilution and misappropriation have become virtually indistinguishable in result if not in aim."<sup>529</sup> As can be seen from the *Ringling* case, the court agreed with the plain meaning interpretation of both Klieger and Reichman, but the court sees itself bound to the Supreme Court's "plain meaning" rule<sup>530</sup> and thus actual dilution was required.

Lee believes that the two approaches can be reconciled and used together to show the true meaning of dilution.<sup>531</sup> This was also the position in state courts prior to the Federal Act. Where dilution had been occurring for some time, evidence of past harm could be accepted. Where dilution was imminent, a showing of future harm will suffice. A remedy can be developed for both past and future harm. He initially criticises both the textualist approach of the *Ringling* court and the realist approach of the *Nabisco* court.<sup>532</sup> Concerning the textualist approach he notes the following. First, to read the statute as requiring proof of past economic harm, rather than future harm, would lead to an absurd reading of the statute. Secondly, a plaintiff may never be able to recover economic loss as damages can only be claimed in the instance of willful intent. Thirdly, economic harm is extremely difficult to prove. Fourthly, the textualist approach leads to absurd results if taken away from the fact pattern of the *Ringling* case and applied in cases such as *Nabisco*. Finally, this approach undermines the essence of dilution as it implies that passage of time is required before there can be a remedy against dilution. The realist approach used in *Nabisco* looks at the intent of Congress and the legislative history of the Act. He indicates that there are also problems with the realists' ten-factor test as it includes trade-mark infringement terminology.<sup>533</sup> Even worse, it may create a monopolistic right in trade marks and thus stifle competition.

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<sup>528</sup> But see Kim (2001) 760.

<sup>529</sup> Klieger (1997) 840.

<sup>530</sup> See fn 443 *supra* for a definition.

<sup>531</sup> Lee (2002) 724-725. This was according to him also the intention of Congress.

<sup>532</sup> See Lee (2002) 715-718, 719-723.

<sup>533</sup> Lee (2002) 720-722.



Another point of view is expressed in a note published in the *Harvard Law Review*.<sup>534</sup> The author reasons that since a single incident of tarnishment immediately diminishes the selling power of a mark and is more likely to cause harm to a plaintiff's mark, it is much more dangerous than blurring and therefore a showing of likelihood of harm would suffice. Blurring, on the contrary, is less harmful, occurring over a longer period of time and therefore evidence of actual harm should be required for a finding of dilution.<sup>535</sup>

Formal reaction first came from the House Committee on the Judiciary. They met early in 2002 to discuss whether the courts were interpreting the Federal Act properly according to congressional intent.<sup>536</sup> A draft bill, which was intended to clarify the standard for dilution, was circulated beforehand. This bill stated that the standard should be a "likelihood of dilution", being more in line with the intent of the original dilution statute. This was also the viewpoint of various interest groups. Action on the bill was nonetheless suspended after the Supreme Court granted *certiorari* in the *Moseley* case.<sup>537</sup>

In 2003 the whole debate was then brought to a head by the Supreme Court's decision of *Moseley v. V Secret Catalogue*.<sup>538</sup> The court held that the Federal Trademark Dilution Act unambiguously requires a showing of actual dilution.<sup>539</sup> The mere fact that consumers mentally associate the junior user's mark with the famous mark, is not a sufficient ground to establish actionable dilution. The court found that "whatever

<sup>534</sup> Note "Trademark Law – Federal Trademark Dilution Act – Sixth Circuit Holds that Plaintiffs Need not Show Actual Harm to Prove Dilution – *V Secret Catalogue, Inc. v. Moseley*, 259 F.3d 464 (6<sup>th</sup> Cir. 2001)" (2001) 115 *Harvard Law Review* 731 at 734-736.

<sup>535</sup> The writer of the note criticises the court's decision in *V Secret Catalogue, Inc. v. Moseley*, 259 F.3d 464 (6<sup>th</sup> Cir. 2001) (see fn 471 and accompanying text *supra* and fn 589 and accompanying text *infra*) for not distinguishing between dilution by blurring and dilution by tarnishment. The writer believes that the court correctly accepted a showing of likelihood of harm in this case as it was a tarnishment issue. But by not limiting its decision to tarnishment cases the court "invited a glut of blurring cases that threatens to stifle commercial speech".

<sup>536</sup> Hearing Before the Subcommittee on Courts, the Internet, and Intellectual Property of the Committee of the Judiciary, 107<sup>th</sup> Congress 2d Session, 14 February 2002. See Garde (2003) 625-626.

<sup>537</sup> *Certiorari* was granted on the specific question of whether "objective proof of actual injury to the economic value of a famous mark is a requisite for relief under the FTDA". See Edelman S "Preface" (2003) 93 *The Trademark Reporter* I.

<sup>538</sup> *Moseley v. V Secret Catalogue, Inc.*, 123 S. Ct. 1115 (2003). See Chapter 4.10.7 "Cases on Tarnishment" *infra* for the facts of this case.

<sup>539</sup> *Moseley v. V Secret Catalogue, Inc.*, 123 S. Ct. 1115 at 1124 (2003). The court compared the language of the federal statute with the "likelihood of harm" language in the state statutes.



difficulties of proof that may be entailed [in demonstrating actual dilution], they are not an acceptable reason for dispensing with proof of an essential element of a statutory violation.”<sup>540</sup> The court then, however, said that actual loss of sales or profits need not be proved. It also agreed that evidence of actual dilution through consumer surveys and other means is expensive and often unreliable,<sup>541</sup> but the court said that this would not be necessary if actual dilution can be proved through circumstantial evidence.<sup>542</sup> The court referred to the decision of *Ringling Bros.*,<sup>543</sup> as well as to the case before it. From these examples it appears that the plaintiff, to prevail on a trade-mark dilution claim, must show some actual adverse impact on its mark, such as a diminishment in the mark’s identifying capacity or negative associations with the mark.<sup>544</sup>

Although there was evidence of the enormous value of respondents’ trade mark, there was no evidence of any impact of petitioners’ use of the name VICTOR’S LITTLE SECRET on that value.<sup>545</sup> Therefore, the court held that there was no actual dilution and the judgment of the circuit court was reversed.

The Supreme Court’s decision is rightly regarded as “one of the most important and potentially controversial decisions in the history of trademark law”.<sup>546</sup> The decision answered a few questions,<sup>547</sup> but left numerous issues in the Federal Act unresolved. The

<sup>540</sup> *Moseley v. V Secret Catalogue, Inc.*, 123 S. Ct. 1115 at 1125 (2003).

<sup>541</sup> Ethan Horowitz, a practitioner said before the Subcommittee on Courts, the Internet, and Intellectual Property that “surveys or other means of showing actual harm have been attempted but were not successful.” Hearing Before the Subcommittee on Courts, the Internet, and Intellectual Property of the Committee of the Judiciary, 107<sup>th</sup> Congress 2d Session, 14 February 2002. In the case of non-identical marks, direct evidence, such as consumer surveys, is a necessary means of proof. See Higgins & Duvall (2003) 828.

<sup>542</sup> *Moseley v. V Secret Catalogue, Inc.*, 123 S. Ct. 1115 at 1125 (2003). The obvious case, according to the court, is one where the junior and senior marks are identical. See Higgins & Duvall (2003) 828; Cendali DM, Matorin CM & Maltby J “*Moseley v. V Secret Catalogue, Inc.*: One Answer, Many Questions” (2003) 93 *The Trademark Reporter* 833 at 835.

<sup>543</sup> *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel* 170 F.3d 449, 1999 U.S. App. LEXIS 4179, 50 U.S.P.Q.2d 1065 (4<sup>th</sup> Cir. 1999).

<sup>544</sup> See Edelman (2003) III.

<sup>545</sup> *Moseley v. V Secret Catalogue, Inc.*, 123 S. Ct. 1115 at 1120 (2003).

<sup>546</sup> Higgins & Duvall (2003) 831. See also Moskin (2003) 851-855 for a discussion of the *Moseley* decision.

<sup>547</sup> Higgins & Duvall (2003) 816 listed seven issues in which the court’s opinion has given insight, namely “(1) the authority of Frank Schechter’s famous law review article; (2) the role of traditional trademark law vis-à-vis dilution law; (3) the FTDA’s “causes dilution” liability standard; (4) “tarnishment” as an



court clarified what suffices as dilution under the Federal Act, but failed to provide guidance on what proof must be offered to show actual dilution. The author believes, as can be seen from the criticisms that follow, that this failure creates more problems rather than solving the issue. Garde<sup>548</sup> also criticises what she called the court's "middle of the road approach". Justice Kennedy in a concurring opinion,<sup>549</sup> proposed that dilution may be proved when a mark erodes or lessens "the power of the famous mark to give customers the assurance of quality and the full satisfaction they have in knowing they have purchased goods bearing the famous mark."<sup>550</sup> According to Garde, Justice Kennedy blurred the distinction between a dilution analysis and a likelihood of confusion analysis by focusing on consumer confusion.<sup>551</sup> Garde emphasises that the issue in a dilution action is the "lessening of the capacity of the mark to identify the famous brand". The court's remark that actual dilution can be proved through circumstantial evidence, the obvious case being where the junior and senior marks are identical, severely limits the reach of the dilution statute.<sup>552</sup> It is also inconsistent of the court to require that actual harm be shown without the availability of monetary damages (in the absence of willfulness). According to Garde the underlying motivation for the court's decision is a fear of granting property rights in gross to trademarks.<sup>553</sup> She concludes that the "unfortunate result of the Supreme Court's interpretation" is that it "returns trademark law to the state it held prior to Schechter's revolutionary concept of dilution" and thus undermines the purpose of the Federal Trademark Dilution Act.<sup>554</sup>

Cendali, Matorin & Maltby<sup>555</sup> do not view the *Moseley* decision in such a negative way. They first establish that mental associations and perceptions are the essence of dilution.

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FTDA cause of action; (5) the relationship of mental association with actionable FTDA dilution; (6) proof of actionable FTDA dilution; and (7) the role of identity of the marks at issue under the FTDA."

<sup>548</sup> Garde (2003) 626-632.

<sup>549</sup> Higgins & Duvall (2003) 829 named Justice Kennedy's concurring opinion "a masquerade in lieu of a dissent". His opinion, for example, purports to agree with the court on matters not stated in the Opinion of the Court.

<sup>550</sup> *Moseley v. V Secret Catalogue, Inc.*, 123 S. Ct. 1115 at 1125-1126. (2003).

<sup>551</sup> Garde (2003) 627.

<sup>552</sup> Garde (2003) 629.

<sup>553</sup> Garde (2003) 630.

<sup>554</sup> Garde (2003) 632.

<sup>555</sup> Cendali, Matorin & Maltby (2003) 836-839.



They reason that the court in *Moseley* did not find evidence that established “the right kind of association” and therefore said that mere mental association is not sufficient to establish actionable dilution. The writers then define “the right kind of association” as “a showing of actual dilution [which] requires evidence that when consumers see the senior mark, they also think of the junior mark.”<sup>556</sup> Thus, although a junior mark reminds consumers of a senior mark, as in the *Moseley* case, it does not follow that when consumers see the senior mark in independent circumstances, they will necessarily think of the junior mark as well. The *Moseley* decision, therefore, did not say that a mere mental association is not enough, but rather that the mental association must run in the right direction: the question is not whether people associate the junior mark with the famous mark, but whether the senior mark reminds people also about the junior mark. Seen in this way, the *Moseley* decision does not have the huge impact on trade-mark dilution law as appears at first sight.

On 25 March 2003, only three weeks after the *Moseley* decision, the International Trademark Association (INTA) announced the formation of a committee on the FTDA.<sup>557</sup> Nearly two years later on 9 February 2005<sup>558</sup> a bill was introduced in the House of Representatives to amend the Trademark Act of 1946 with respect to dilution by blurring or tarnishment.<sup>559</sup> It was passed by the House of Representatives with an overwhelming majority<sup>560</sup> on 19 April 2005 and was referred to the Senate the next day. The present<sup>561</sup> status of the bill is that it has been received in the Senate, read twice and referred to the Committee on the Judiciary.

If it is enacted by both houses of Congress, many controversial issues that flowed from different interpretations given to the 1995 version of the Federal Trademark Dilution Act

<sup>556</sup> Cendali, Matorin & Maltby (2003) 837. See also Moskin (2003) 851.

<sup>557</sup> Moskin (2003) 855 fn 52.

<sup>558</sup> As stated earlier, this bill was introduced after the cut-off date of 31 December 2003 for this dissertation, but some comments are included in the light of the importance of this bill for the development of the dilution concept in the USA.

<sup>559</sup> Trademark Dilution Revision Act of 2005 HR Rep No 683, (9 February 2005).

<sup>560</sup> The Final Vote Results were 411 in favour to 8 against with 15 members not voting. See <http://clerk.house.gov/evs/2005/roll109.xml>.

<sup>561</sup> Internet search on 30 August 2005. <http://thomas.loc.gov/cgi-bin/bdquery/z?d109:h.r.00683>.



by different courts will be of academic interest only. It is also clear that the Act was drafted directly in response to the *Moseley* decision of the Supreme Court in 2003. The split in the circuit courts and Supreme Court on the likelihood of dilution *vs* actual dilution issue will be settled by the Act explicitly defining dilution as use of a mark “likely to cause dilution by blurring or dilution by tarnishment”. Actual harm is therefore not a prerequisite to injunctive relief. It is also stated that the “presence or absence of actual or likely confusion, of competition, or of actual economic injury” makes no difference when deciding the dilution question. Dilution by blurring<sup>562</sup> and dilution by tarnishment<sup>563</sup> are then defined. A new definition for famous marks is also included.<sup>564</sup>

#### 4.10.5 “CONFUSION” UNDER THE FEDERAL ACT

Even after acceptance of the Federal Trademark Dilution Act courts still struggle to keep the notion of dilution apart from infringement. They continue to require a showing of confusion for a finding of dilution. As has been said, dilution and traditional infringement have separate states of consumer perception. In a few recent court decisions it was fortunately recognised that dilution requires a different state of mind.<sup>565</sup> McCabe identifies the following reasons for the courts’ ongoing reliance on confusion.<sup>566</sup> There is a very strong precedent in the state courts for consumer confusion. It is just easier and more efficient for the federal courts to apply existing trade-mark law, rather than to invent new standards for dilution infringement. Another reason may be that the outcome of the cases is more predictable when applying the well-known existing standards. There is also still a lot of misapprehension regarding the concept of dilution in many courts. Another reason he mentions is that there is the perception that dilution grants too much

<sup>562</sup> “‘Dilution by Blurring’ is association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark.” (It is stated expressly that a mark can be inherently distinctive or can acquire distinctiveness.) Certain factors are listed to determine dilution by blurring. See Chapter 4.10.6 “Cases on Blurring” *infra*.

<sup>563</sup> “‘Dilution by tarnishment’ is association arising from the similarity between a mark or trade name and a famous mark that harms the reputation of the famous mark.” See also Chapter 4.10.7 “Cases on Tarnishment” *infra*.

<sup>564</sup> See the last two paragraphs of Chapter 4.10.3 “Famous Marks” *supra*.

<sup>565</sup> *I.P. Lund Trading ApS v. Kohler Co.*, 163 F.3d 27 at 48-49 (1<sup>st</sup> Cir. 1998); *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208 at 219 (2<sup>nd</sup> Cir. 1999).

<sup>566</sup> McCabe (2000) 1858.



exclusivity to a mark, which together with the subtlety of the injury causes judicial reluctance to enforce dilution law. McCabe also feels that even the "Sweet Test" is merely a recreation of the infringement standard and therefore not very helpful in the determination of a dilution claim.<sup>567</sup>

#### 4.10.6 CASES ON BLURRING<sup>568</sup>

Blurring is the classic type of dilution as envisaged by Schechter and others. It presumes some kind of mental association in the minds of reasonable consumers between the two parties and the mark, although there is no confusion as to source or sponsorship or affiliation.<sup>569</sup> It definitely fits under the phrase "lessening of the capacity of a famous mark to identify and distinguish goods or services" in the new Act. The challenge will be to gather evidence in court to prove that blurring occurred.<sup>570</sup>

As already said, the case law following the Federal Trademark Dilution Act, rely heavily on state law precedent. For example, since the definition of dilution in the Lanham Act does not give much help to determine the "lessening of the distinctiveness" of a famous trade mark, the courts have to use other means. The well-known "Sweet Test" for determining dilution by blurring, was, as a result, adopted by several courts, some recognising criticism against the test. This test was formulated by Judge Sweet in his opinion in the *Mead Data* case<sup>571</sup> under the New York dilution statute in 1989. The *Deere* case referred to this test as the "traditional six-factor test".

One of the first cases where the new statute had to be applied was *Ringling Bros. v. B.E. Windows*.<sup>572</sup> The well-known circus owner instituted action under both the federal dilution statute and the New York dilution statute to protect its slogan THE GREATEST

<sup>567</sup> See McCabe (2000) 1858-1859 and other commentators cited there.

<sup>568</sup> See Chapter 3.4.1 "Blurring" *supra* for a definition and examples.

<sup>569</sup> Pokotilow & Fefferman (2001) 1153.

<sup>570</sup> McCarthy (1998) 591-592.

<sup>571</sup> *Mead Data Central, Inc. v. Toyota Motor Sales, U.S.A., Inc.*, 875 F.2d 1026, 10 U.S.P.Q.2d 1961 (2<sup>nd</sup> Cir. 1989). See the discussion in Chapter 4.3.3.1 "Second Circuit Cases" *supra*.

<sup>572</sup> *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. B.E. Windows Inc.*, 937 F.Supp. 204, 40 U.S.P.Q.2d 1010 (S.D.N.Y. 1996).



SHOW ON EARTH from the use of the slogan THE GREATEST BAR ON EARTH by a New York restaurant for its bar on top of the World Trade Centre. The court<sup>573</sup> applied the “Sweet Test” and came to the conclusion that the plaintiff’s mark was not likely to be diluted. The court recognised that plaintiff’s mark was indeed famous<sup>574</sup> and the fact that its customer base was not sophisticated also favoured the plaintiff. But the plaintiff did not show predatory intent on the part of the defendant. The defendant’s mark was also not nationally renowned.

The “Sweet Test” was rejected in the following appeal decisions interpreting the Federal Trademark Dilution Act. In *I.P. Lund Trading Aps v. Kohler Co.*,<sup>575</sup> the First Circuit abandoned this test. The court found it “inappropriate” in determining whether dilution has occurred. It instead required an “inquiry ... into whether target customers are likely to view the products as essentially the same”.<sup>576</sup>

Also the Fourth Circuit in *Ringling Bros. v. Utah*,<sup>577</sup> criticised the “Sweet Factors” by finding them “simply ... not appropriate for assessing a claim under the Federal Act”. The court noted that only mark similarity and maybe the renown of the senior mark, can be relevant under the Federal Act. To use factors such as consumer sophistication and predatory intent to infer actual harm and effective causation was regarded as “a chancy process at best”.

The proposed Trademark Dilution Revision Act of 2005<sup>578</sup> will probably make it easier for courts to determine whether dilution by blurring has occurred. Blurring is defined as

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<sup>573</sup> After reaching the conclusion that the plaintiff’s claims are the same under either statute, because the Federal Act was intended to coexist with the state dilution statutes.

<sup>574</sup> The court, however, did not discuss the fame requirement. It barely stated that the mark is famous as contemplated by the Act. See also Klieger (1997) 849 fn 356.

<sup>575</sup> *I.P. Lund Trading Aps v. Kohler Co.*, 163 F.3d 27, 49 U.S.P.Q.2d 1225 (1<sup>st</sup> Cir. 1998).

<sup>576</sup> *I.P. Lund Trading Aps v. Kohler Co.*, 163 F.3d 27 at 50, 49 U.S.P.Q.2d 1225 (1<sup>st</sup> Cir. 1998).

<sup>577</sup> *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Development* 170 F.3d 449 at 464, 50 U.S.P.Q.2d 1065 (4<sup>th</sup> Cir. 1999). This went *contra* the decision in the district court *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Development* 955 F.Supp. 605 at 618-621, 1997 U.S.Dist. LEXIS 2116, 42 U.S.P.Q.2d (BNA) 1161 (E.D. Va. 1997), where these factors were applied.

<sup>578</sup> Trademark Dilution Revision Act of 2005 HR Rep No 683, (9 February 2005). See Discussion in the last two paragraphs of Chapter 4.10.4 “Likelihood of Dilution vs Actual Dilution” *supra*.



“association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark”.<sup>579</sup> It will also bring more certainty as the Act, although stating that “all relevant factors” may be considered, specifically lists the following factors to determine whether the distinctiveness of the famous mark was impaired:

- “(i) The degree of similarity between the mark or trade name and the famous mark;
- (ii) The degree of inherent or acquired distinctiveness of the famous mark;
- (iii) The extent to which the owner of the famous mark is engaging in substantially exclusive use of the mark;
- (iv) The degree of recognition of the famous mark;
- (v) Whether the user of the mark or trade name intended to create an association with the famous mark;
- (vi) Any actual association between the mark or trade name and the famous mark.”

#### 4.10.7 CASES ON TARNISHMENT<sup>580</sup>

Tarnishment is seen as one of the two traditional types of trade-mark dilution, but not everyone is of the opinion that it is covered by the Federal Act.<sup>581</sup> However, it appeared to be the intention of Congress that it is. It is stated in the House Reports that the Federal Act is intended “to protect famous marks from subsequent uses that blur the distinctiveness of the mark or tarnish or disparage it.”<sup>582</sup> The case law, before 2003, has also accepted that tarnishment is covered by the Act. But the Supreme Court in *Moseley v. V Secret Catalogue, Inc.*, cast doubt on this. The court noted that tarnishment may not be “embraced by the statutory text”.<sup>583</sup> This conceivable lacuna in the Act is clarified by

<sup>579</sup> § (c)(2)(B).

<sup>580</sup> See Chapter 3.4.2 “Tarnishment” *supra* for the definition of this concept and examples.

<sup>581</sup> Denicola (1996) 88-90 argues that the Act is and should be limited to a loss of distinctiveness through the subsequent use of a mark to identify another’s goods. He gives an analysis of both the genealogy of the federal legislation and its plain meaning to substantiate his view. See also Alexander MJ & Heilbronner MK “Dilution under Section 43(c) of the Lanham Act” (1996) 59 *Law and Contemporary Problems* 93 at 124-125 and the commentary by McCarthy (1998) 593.

<sup>582</sup> HR Rep No 104-373, 3 (1995), quoted in *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. B.E. Windows Inc.*, 937 F.Supp. 204, 40 U.S.P.Q.2d 1010 (S.D.N.Y. 1996) and *Toys “R” Us Inc. v. Akkaoui*, 1996 U.S. Dist. LEXIS 17090, 40 U.S.P.Q.2d (BNA) 1836 (N.D. Cal. 1996).

<sup>583</sup> *Moseley v. V Secret Catalogue, Inc.*, 123 S. Ct. 1115 at 1124 (2003). The court said “the contrast between the state statutes, which expressly refer to both “injury to business reputation” and to “dilution



the Trademark Dilution Revision Act of 2005, which unequivocally includes dilution by tarnishment.<sup>584</sup>

One example where the court issued a temporary restraining order ("TRO") to protect a trade mark from tarnishment under the Federal Act, is *Anheuser-Busch, Inc., v. Andy's Sportswear, Inc.*<sup>585</sup> Plaintiff, a brewing company averred that the T-shirts sold by the defendant, a sportswear manufacturer diluted its BUDWEISER trade mark. The defendant manufactured and distributed BUTTWISER T-shirts. The court recognised that plaintiff's trade mark was "unquestionably famous" which the defendant apparently conceded. The court accepted that the plaintiff had at least raised serious questions about the negative effect of the defendant's T-shirts on its trade mark and then granted the order.

Also in *Hasbro*<sup>586</sup> the plaintiff was successful in protecting his trade mark, CANDY LAND, against tarnishment. The court concluded that Hasbro had shown that the use of the name CANDYLAND and the domain name "candyland.com" for a sexually explicit Internet site, was causing irreparable harm to its federally registered trade mark for children's games. This harm outweighed any inconvenience that the defendant would experience if they were ordered to stop using the name. It would also be in the public interest to grant a preliminary injunction. Unfortunately the court made no mention of the requirement that CANDY LAND must be famous before it can qualify for dilution protection.<sup>587</sup>

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of the distinctive quality of a trade name or trademark," and the federal statute which refers only to the latter, arguably supports a narrower reading of the FTDA". See also Moskin (2003) 855. However, in reaction to *Moseley*, Cendali, Matorin & Maltby (2003) 840-841 argue that the TFDA's definition of dilution is broad enough to include tarnishment.

<sup>584</sup> See § 2 which replaces § 43(c) of the Trademark Act of 1946. Dilution by tarnishment is defined in § (c)(2)(C) as "association arising from the similarity between a mark or trade name and a famous mark that *harms the reputation of the famous mark*". (Emphasis added.) See the discussion in the last two paragraphs of Chapter 4.10.4 "Likelihood of Dilution vs Actual Dilution" *supra*.

<sup>585</sup> *Anheuser-Busch, Inc., v. Andy's Sportswear, Inc.*, 40 U.S.P.Q.2d 1542 (N.D. Cal. 1996).

<sup>586</sup> *Hasbro, Inc. v. Internet Entertainment Group, Ltd.*, 40 U.S.P.Q.2d 1479 (W.D. Wash. 1996).

<sup>587</sup> See the criticism of Klieger (1997) 849.



Another case within the same parameters, is *Toys "R" Us v. Akkaoui*.<sup>588</sup> The defendant commenced a business under the name "Adults "R" Us" and registered the domain name "adultsrus.com" for its web site selling sexual devices and clothing. Plaintiff owns an array of trade marks ending with the words "R Us." The court, after applying the eight-factor test of the Federal Act, found that the Toys "R" Us family of marks are famous and distinctive. The inherent peculiarity of the mark, duration and extent of use and advertising and the fact that both parties used the Internet to promote their goods were taken into account. The judge then turned to the definition of dilution in the Federal Act and concluded that ADULTS "R" US tarnished the "R" US family of marks by "associating them with a line of sexual products that are inconsistent with the image Toys "R" Us has striven to maintain for itself".

In the *V Secret* case Victoria's Secret instituted an action against Victor and Cathy Moseley for infringement and dilution of the VICTORIA'S SECRET trade mark for women's lingerie, clothing and accessories. The Moseleys owned a retail store in a strip mall that sold lingerie, adult videos and sex toys, which they named VICTOR'S LITTLE SECRET.<sup>589</sup> The respondents own the VICTORIA'S SECRET trade mark and operate over 750 VICTORIA'S SECRET stores which sell moderately priced, high quality and attractively designed lingerie. The district court<sup>590</sup> found that the Moseleys' use of the name VICTOR'S LITTLE SECRET had a tarnishing effect upon the VICTORIA'S SECRET mark and enjoined the defendant from using it.<sup>591</sup> The circuit court affirmed the decision.<sup>592</sup> The defendant petitioned for *certiorari*, which was granted. The Supreme Court then reversed the decision of the circuit court. The Supreme Court first

<sup>588</sup> *Toys "R" Us Inc. v. Akkaoui*, 1996 U.S. Dist. LEXIS 17090, 40 U.S.P.Q.2d (BNA) 1836 (N.D. Cal. 1996).

<sup>589</sup> Originally they named it VICTOR'S SECRET, but changed the name after protest from Victoria's Secret. The word "Little" was, however, so much smaller than VICTOR'S and SECRET and written in above the original logo, that the court found the two marks to be substantially similar for purposes of the dilution claim.

<sup>590</sup> *V Secret Catalogue, Inc. v. Moseley*, 54 U.S.P.Q.2d 1092 (W.D. Ky. 2000).

<sup>591</sup> The court concluded that "while the defendants' inventory may not be unsavory to all, its more risqué quality widely differentiates it from that of the plaintiffs". To comply with the injunction the Moseleys changed the name of the store to CATHY'S LITTLE SECRET, but also appealed the injunction to the circuit court.

<sup>592</sup> *V Secret Catalogue, Inc. v. Moseley*, 259 F.3d 464 (6<sup>th</sup> Cir. 2001). The court found that the marks were sufficient similar to cause "dilution-by-blurring and dilution-by-tarnishment".



questioned whether tarnishment was actually covered by the wording of the federal statute but then refused to enjoin the defendant from using the name on the basis that the clear wording of the statute required actual dilution, rather than a likelihood of dilution.<sup>593</sup>

There are also examples where the courts came to the conclusion that there was no likelihood of dilution through tarnishment. This was decided in the cases of *Ringling Bros. v Utah*<sup>594</sup> and *Clinique Lab., Inc. v. DEP Corp.*<sup>595</sup>

#### 4.10.8 RETROACTIVITY OF THE ACT

The retroactive application of the Dilution Act is still one of the unsettled aspects of this law.<sup>596</sup> In a landmark case on the retroactive application of federal law, the Supreme Court in 1992 in *Landgraf v. USI Film Products*<sup>597</sup> formulated a two-pronged analysis, the so-called “Landgraf Test”. Firstly, determine whether Congress clearly intended the legislation to act retrospectively and secondly, if there was no such clear congressional intent, there is a presumption against retrospective application of the statute if such application would have a genuine retroactive effect.<sup>598</sup> The Dilution Act shows no clear congressional intent to apply it retroactively, either in its language or in its legislative history.<sup>599</sup>

<sup>593</sup> *Moseley v. V Secret Catalogue, Inc.*, 123 S. Ct. 1115 (2003). See the discussion in Chapter 4.10.4 “Likelihood of Dilution vs Actual Dilution” *supra*.

<sup>594</sup> *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Development* 935 F.Supp. 763, 40 U.S.P.Q.2d 1303 (E.D. Va. 1996), *affd.* 170 F.3d 449, 50 U.S.P.Q.2d 1065 (4<sup>th</sup> Cir. 1999). The court decided that the defendant’s slogan THE GREATEST BAR ON EARTH did not tarnish the plaintiff’s trade mark THE GREATEST SHOW ON EARTH, simply because alcohol was served by the defendant. The plaintiff also served alcohol at some venues, as did some of its sponsors.

<sup>595</sup> *Clinique Laboratories, Inc., v. Dep Corp.*, 945 F. Supp. 547 (S.D.N.Y. 1996). No tarnishment of the CLINIQUE trade mark was found by the use of the BASIQUE mark by the defendant on a cheaper range of skin products. The plaintiff’s mark would suffer no negative associations.

<sup>596</sup> For a detailed discussion of the retroactivity of the Act and case law on this subject see Speiss TJ “Is the Trademark Dilution Act Retroactive?” (2001) 91 *The Trademark Reporter* 937-963.

<sup>597</sup> *Landgraf v. USI Film Products*, 511 US 244, 265 (1994), *affg* 968 F2d 427 (5<sup>th</sup> Cir. 1992).

<sup>598</sup> To determine whether the Act under scrutiny has a “genuine retroactive effect”, the court should base its decision on the particular statutory provision in question as it relates to the facts of the case. If the new law attaches new legal consequences to events completed before its enactment, such as impairing rights a party possessed when he acted, increasing a party’s liability for past conduct or imposing new duties with respect to transactions already completed, it has genuine retroactive effect.

<sup>599</sup> Speiss (2001) 947.



The second prong was addressed in several cases.<sup>600</sup> In *Circuit City Stores, Inc. v. OfficeMax, Inc.*<sup>601</sup> the court decided that under the Landgraf Test the imposition of even injunctive relief would be impermissibly retroactive.<sup>602</sup> Moreover, in the case of *Fuente Cigar, Ltd. v. Opus One*<sup>603</sup> the court found that the Dilution Act does not have "genuine retroactive effect".

This issue came under scrutiny for the first time in a Court of Appeals in the Eighth Circuit's judgment in *Viacom v. Ingram Enterprises*.<sup>604</sup> The court expressly disagreed with the judgment in *Circuit City* and reached the conclusion that the Federal Trademark Dilution Act does have retroactive effect. The court emphasised the difference between the retroactive effect of damages and the retroactive effect of injunctive relief. It then stated that injunctive relief imposed by a statute does not have genuine retroactive effect, only a prospective effect. The court further emphasised that such relief depends on the equitable considerations of the case itself.<sup>605</sup> Speiss supports the *Viacom* decision that "relief is permissible as a matter of law to enjoin ongoing post-enactment use of a diluting mark."<sup>606</sup>

The issue was then addressed in *Nike Inc. v. Nike Securities*,<sup>607</sup> where the district court declined to apply the Dilution Act retroactively. The court relied heavily on "principles of equity".

<sup>600</sup> See the discussion of these cases in Speiss (2001) 948-958.

<sup>601</sup> *Circuit City Stores, Inc. v. OfficeMax, Inc.*, 949 F. Supp. 409, 42 U.S.P.Q.2d 1194 (E.D. Va. 1996). This was the first case considering retroactivity after enactment of the Federal Trademark Dilution Act.

<sup>602</sup> The issuing of an injunction against further use would impose new legal consequences on the pre-enactment-user. The pre-enactment user's post-enactment use was not illegal under federal law before the effective date of the Dilution Act. The same conclusion was *inter alia* reached in *Resorts of Pinehurst, Inc. v. Pinehurst National Development Corp.*, 973 F.Supp. 552, 43 U.S.P.Q.2d 1746 (M.D. N.C. 1997).

<sup>603</sup> *Fuente Cigar, Ltd. v. Opus One*, 985 Supp. 1448 (M.D. Fla. 1997). This court disagreed with the *Circuit City* court on several aspects. See Speiss (2001) 953.

<sup>604</sup> *Viacom Inc. v. Ingram Enterprises Inc.*, 141 F.3d 886, 46 U.S.P.Q.2d 1473 (8<sup>th</sup> Cir. 1998).

<sup>605</sup> See Speiss (2001) 961. There are two considerations: the fairness to take away his investment in the diluting mark from the pre-enactment user *versus* the amount of dilution the other mark is likely to suffer. Speiss (2001) 963 believes that the second consideration must "significantly outweighs" the first before injunctive relief is imposed.

<sup>606</sup> Speiss (2001) 961.

<sup>607</sup> *Nike Inc. v. Nike Securities L.P.*, 50 U.S.P.Q.2d 1202 (N.D. Ill. 1999).



Several district and Circuit Courts followed the judgment in *Viacom*.<sup>608</sup> In *Medic Alert Foundation United States, Inc. v. Corel Corp.*<sup>609</sup> the court decided that injunctive relief is available under the Act, "even if the original violation began prior to the effective date of the Act... ." But the court refused to issue an injunction, because "principles of equity" weighed against it.

#### 4.11 REFORMING THE FEDERAL TRADEMARK DILUTION ACT?

In 1995 the Federal Trademark Dilution Act was most welcomed by the trade-mark community. It was seen as a solution to what has been described as the "patch-quilt system" for protection offered under state dilution laws.<sup>610</sup> It was hoped that the Federal Act would bring clarity and eliminate the inconsistencies in state decisions. However, from the discussion of cases decided under the Federal Act, it appears that the "patch-quilt" remains, as will forum-shopping.<sup>611</sup> The decisions in the different circuits have been inconsistent on several issues, sometimes creating more confusion than resolution. Some scholars feel quite strongly about this. As Kostello put it: "[t]he widely divergent interpretations of the Act ... have only provided more fodder for the theory's critics and deepened the debate over its wisdom."<sup>612</sup>

One suggestion to overcome these inconsistencies in the interpretation of the Federal Act, is for Congress to amend the Act. Edgecombe suggests the following amendments.<sup>613</sup>

<sup>608</sup> See *Hasbro, Inc. v. Clue Computing, Inc.*, 66 F.Supp.2d 11752, U.S.P.Q.2d 1402 (D. Mass. 1999), affd. 232 F.3d 1 U.S.P.Q.2d 1766 (1<sup>st</sup> Cir. 2000); *Sporty's Farm L.L.C. v. Sportsman's Market Inc.* 202 F.3d 489, 53 U.S.P.Q.2d 1570 (2<sup>nd</sup> Cir. 2000) [dilution is a continuing harm; the injunction provided only prospective relief, since it did no more than avoid the continuing harm]; *Westchester Media v. PRL USA Holdings, Inc.*, 214 F.3d 658, 55 U.S.P.Q.2d 1225 (5<sup>th</sup> Cir. 2000); *Bunn-O-Matic Corp. v. Bunn Coffee Service* 88 F.Supp.2d 914, 54 U.S.P.Q.2d 1012 (C.D. Ill. 2000).

<sup>609</sup> *Medic Alert Foundation United States, Inc. v. Corel Corp.* 43 F.Supp.2d 933 at 941, 51 U.S.P.Q.2d 1024 (N.D. Ill. 1999). See Kera & Davis (2001) 135 for a short discussion.

<sup>610</sup> Shire (2001) 1124. See also Chapter 4.3.1 "Protection and Related Problems" *supra* for a discussion of the problems under the state dilution laws.

<sup>611</sup> See Editor's Note "Dilution Law: A 'Patch-Quilt' of Judicial Interpretation of the Federal Trademark Dilution Act" 91 (2001) *The Trademark Reporter* 1123; Lee (2002) 704-705, 726.

<sup>612</sup> Kostello (2001) 1134.

<sup>613</sup> Edgecombe (2002) 1274-1280.



Firstly, the actual harm requirement should be made explicit.<sup>614</sup> Secondly, protection should be offered only to highly distinctive marks.<sup>615</sup> Thirdly, dilution protection should be unavailable in the case of competing goods or where there is product confusion.<sup>616</sup> Finally, the concepts of blurring and tarnishment should be eliminated from the Act.<sup>617</sup> The goals he contemplates to accomplish are to prevent the over-expansion of the dilution doctrine to the detriment of traditional infringement and to prevent the dissolution of the consumer protection model;<sup>618</sup> to protect the public interest and to provide necessary protection to a specific class of marks.<sup>619</sup> These suggestions are obviously controversial and it still remains to be seen what will happen to the Act.<sup>620</sup>

#### 4.12 SYNOPSIS

Protection against trade-mark dilution has come a long way in the United States since it was born in 1927 as the brainchild of Professor Frank Schechter. From the start the dilution thesis was shrouded in controversy as it stands in sharp contrast to trade-mark law in general, which was developed to protect the consumer public from confusion.

<sup>614</sup> Congress should also enact the forms of proof sufficient to prove dilution. Edgecombe (2002) 1274-1275.

<sup>615</sup> See Chapter 4.10.2 "Distinctiveness" *supra*. Edgecombe (2002) 1276-1278 argues that only fanciful marks merit dilution protection, since they are "the only marks which have a distinctive quality that is sufficient enough to deserve protection". There is also no significant public interest in the use of fanciful marks as in the case of descriptive, suggestive and arbitrary marks, which can be used in other contexts, because fanciful marks have been added to the human vocabulary.

<sup>616</sup> The dilution rationale was not intended to substitute the likelihood of confusion test where the parties are in direct competition. It was rather created to fill the gap in trade-mark protection. There are, however, a small percentage of cases where the parties are in direct competition, but confusion is absent. The senior user would be without a remedy in the absence of dilution protection.

<sup>617</sup> Tarnishment does not fit in the definition of dilution as "the gradual whittling away of a mark's selling power" as the harm caused by tarnishment causes an immediate injury to the mark. Blurring describes "a loss of uniqueness", while the Act protects the loss of selling power. Therefore it is not an accurate term, according to Edgecombe (2002) 1279. He sees dilution as protecting the selling power of the mark, as did the *Ringling* court.

<sup>618</sup> He sees the consumer protection model as the only legitimate reason for protecting trade marks, as this model is the foundation for American trade-mark law.

<sup>619</sup> Edgecombe (2002) 1273.

<sup>620</sup> As have been discussed in the last two paragraphs of Chapter 4.10.4 "Likelihood of Dilution vs Actual Dilution" *supra*, Congress is in the process of amending the FTDA. The Trademark Dilution Revision Act of 2005 will set the standard for dilution explicitly as a likelihood of dilution. Furthermore dilution is defined as dilution by blurring or dilution by tarnishment. It is also stated that dilution can take place



The first statutory recognition for dilution took place in 1947, when the state of Massachusetts enacted a statute prohibiting dilution. Over time more than half of the states adopted statutory protection against dilution, mostly following the wording of the dilution provision in §12 of the Model State Trademark Bill of 1964. Protection was generally given to distinctive or strong trade marks where a similar mark was used on dissimilar goods in such a way that the business reputation or distinctive quality of the senior mark was injured or diluted. The dilution doctrine, however, also found application in cases where the goods were competing.

A few important dilution cases were decided under state laws. Between 1930 and 1977 the most significant case was *Polaroid*,<sup>621</sup> acknowledging that dilution is a substantially different action from infringement. The 1977 *Allied Maintenance* case,<sup>622</sup> in which the court broke with the longstanding judicial reluctance to apply the clear language of the dilution statutes, was considered as a landmark case. In this case it was recognised that the dilution doctrine was designed to provide protection above and beyond the traditional trade-mark protection for infringement or unfair competition. It was also stated that likelihood of confusion and competition was not part of a dilution claim. The two-pronged *Allied* test was formulated: The senior mark had to be distinctive and there had to be a likelihood of dilution.

Another very important case decided under state laws, was *Mead Data v. Toyota Motor Sales*.<sup>623</sup> The *Allied* test was extended to include also similarity of marks. The court accurately defined dilution as requiring some mental association between the marks. The controversial "Sweet Test" for determination of a likelihood of blurring was also

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in the "presence or absence of actual or likely confusion, of competition, or of actual economic injury". Thus clarifying many issues raised by inconsistent circuit court decisions and various commentators.

<sup>621</sup> *Polaroid Corporation v. Polaroid Inc.*, 319 F.2d 830, 1963 U.S. App. LEXIS 4810, 138 U.S.P.Q. (BNA) 265 (7<sup>th</sup> Cir. 1963). See Chapter 4.3.3.2 "Seventh Circuit Cases" *supra*.

<sup>622</sup> *Allied Maintenance Corporation v. Allied Mechanical Trades, Inc.*, 42 N.Y.2d 538, 369 N.E.2d 1162, 1977 N.Y. LEXIS 2429, 399 N.Y.S.2d 628, 198 U.S.P.Q. (BNA) 418 (1977). See Chapter 4.3.3.1 "Second Circuit Cases" *supra*.

<sup>623</sup> *Mead Data Central, Inc. v. Toyota Motor Sales, U.S.A., Inc.*, 875 F.2d 1026, 1032, 10 U.S.P.Q.2d 1961 (2<sup>nd</sup> Cir. 1989). See Chapter 4.3.3.1 "Second Circuit Cases (viii) Comments on the 'Sweet Test'" *supra*.



formulated by Judge Sweet in his concurring opinion. These factors<sup>624</sup> have been adopted by virtually all state and even federal courts hearing subsequent blurring claims. However, criticism against the "Sweet Test" is widespread, particularly because it raises issues which are more appropriate when an infringement based confusion, as opposed to dilution, is alleged.

In the *Deer* case<sup>625</sup> the court upheld a dilution-based injunction by deciding that the use of an altered version of a distinctive trade mark to identify a competitor's product in comparative advertising can constitute trade-mark dilution. The court thus recognised that blurring and tarnishment are not the only bases for dilution.

However, the ambiguous language of some early statutes, fears of monopolisation, judicial antipathy, confusion with the established infringement doctrine and lack of uniformity and consistency in application unfortunately led to the conclusion that the employment of the dilution concept by the states had been largely unsuccessful. However even after the enactment of the Federal Trademark Dilution Act the state dilution laws will continue to be important as the federal law does not pre-empt the existing state laws.

There were a few notable cases decided in federal courts before the enactment of the Federal Trademark Dilution Act in which the court had implicitly relied on the dilution doctrine to protect trade marks. The most renowned case of this era is probably *Dallas Cowboys Cheerleaders v. Pussycat Cinema*.<sup>626</sup>

The Federal Trademark Dilution Act<sup>627</sup> of 1995, which amended the Lanham Act, was signed into law on 16 January 1996. This law provides that the owner of a famous mark,

<sup>624</sup> The similarity of marks, the similarity of the products covered by the marks, the sophistication of the consumers, predatory intent, the renown of the senior mark and the renown of the junior mark.

<sup>625</sup> *Deere & Co. v. MTD Prod., Inc.*, 41 F.3d 39, U.S.P.Q. 2d 1936 (2<sup>nd</sup> Cir. 1994). See Chapter 4.3.3.1 "Second Circuit Cases" *supra*.

<sup>626</sup> *Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, 604 F.2d 200, 203 U.S.P.Q. 161 (2<sup>nd</sup> Cir. 1979). See Chapter 4.4 "Federal Dilution Protection Before the Federal Act" *supra*.

<sup>627</sup> The Federal Trademark Dilution Act of 1995, Pub. L. No. 104-98, 109 Stat. 985 (1995) (codified as amended at 15 USC § 1125, 1127 (West 1996)).



federally registered or unregistered, shall be entitled to an injunction against another person's use in commerce of a mark, if that use commences after the senior mark has become famous and that use causes dilution of the distinctive quality of the senior mark. The section continues to give a non-exclusive list of eight factors,<sup>628</sup> which the courts may use in determining whether or not a mark is distinctive and famous. Dilution is defined in the Act as "the lessening of the capacity of a famous mark to identify and distinguish goods or services, regardless of the presence or absence of (1) competition between the owner of the famous mark and other parties, or (2) likelihood of confusion, mistake, or deception". Despite this clear language courts still struggle to distinguish clearly and consistently between the notion of dilution and infringement.<sup>629</sup> According to the House Report, accompanying the Act, dilution is "designed to encompass all forms of dilution recognized by the courts, including dilution by blurring, dilution by tarnishment and disparagement, and by diminishment". The remedies provided besides an injunction are an award for damages, including treble damages for willful dilution, attorneys' fees and destruction of diluting material. Exceptions to which the Act does not apply are fair use in comparative advertising, non-commercial uses and news reporting and commentary.

Several issues arising from the Federal Act have been addressed in case law. Some issues have been settled, some only partially settled and others still remain controversial. The degree of similarity required of the conflicting marks is not defined in the Act. This issue was settled in part in the case of *Ringling Bros.-Barnum v. Utah Division of Travel*,<sup>630</sup> where the Court of Appeal confirmed the district court's approach that on the plain and unambiguous language of the Act both identical and similar marks are included in the dilution provision. It seems that the test of substantial similarity may be used to determine the degree of similarity, but the question still remains how similar the conflicting marks must be.

<sup>628</sup> See Chapter 4.7.1 "Definition of Dilution in the Act" *supra* for § 43(c)(1) and Chapter 4.7.2 "Discussion of the Different Factors" *supra*.

<sup>629</sup> See Chapter 4.10.5 "'Confusion' under the Federal Act" *supra*.

<sup>630</sup> *Ringling Bros.-Barnum & Bailey Combined Shows v. Utah Division of Travel*, 935 F.Supp. 763, 40 U.S.P.Q.2d 1303 (E.D. Va. 1996), affirmed. 170 F.3d 449, 50 U.S.P.Q.2d 1065 (4<sup>th</sup> Cir. 1999). See Chapter 4.10.1 "Identical or Similar Mark?" *supra*.



Distinctiveness is also an essential element of a dilution claim. This issue has been addressed in a few cases<sup>631</sup> and can be summed up as follows. In spite of contrary decisions it seems that distinctiveness is something different from fame and that it refers to inherent as well as acquired distinctiveness. The more distinctive the mark, the greater the interest in protecting it and the better the chances of a finding of dilution.

The application of the dilution remedy is limited by requiring a famous mark. To determine the fame of a mark the Act gives an eight-factor test, but only a few courts applied this test and then with little analysis and little real understanding of the Act. The best discussion of the fame factors is found in the *Star Markets* case.<sup>632</sup> In most cases the courts used one of two conflicting judicial theories for identifying famous marks, the niche-market theory and the general-public theory. According to the niche-market theory, used especially in the case of competing products, a mark can be famous although it is only well known in a niche market limited to a specific group, geographic area, product feature or price-quality level. The general-public theory requires a mark to be famous on a national or even global scale for a substantial segment of the public. More clarity on the fame requirement will be brought by the proposed Trademark Dilution Revision Act of 2005. Protection is denied for marks that are only famous in a niche market and the fame factors are reduced to three, although "all relevant factors" may be considered to determine whether a mark is famous or not.

The most controversial issue arising from the 1995 Act is the interpretation of the words "causes dilution". Some courts require proof of actual dilution, while others find a likelihood of dilution sufficient. The two leading circuit court cases are *Ringling Bros. Barnum v. Utah Division of Travel*, where the court required actual economic harm and *Nabisco v. PF Brands*, which rejected this interpretation.<sup>633</sup> In a decision based on the

<sup>631</sup> See Chapter 4.10.2 "Distinctiveness" *supra*.

<sup>632</sup> *Star Markets, Ltd. v. Texaco, Inc.* 950 F.Supp. 1030 (D. Haw. 1996). See Chapter 4.10.3 "Famous Marks" *supra*.

<sup>633</sup> *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Development* 935 F.Supp. 763, 1996 U.S. Dist. LEXIS 13304, 40 U.S.P.Q.2d (BNA) 1303 (E.D. Va. 1996); 955 F.Supp. 605, 1997 U.S. Dist. LEXIS 2116, 42 U.S.P.Q.2d (BNA) 1161 (E.D. Va. 1997); *affd.* 170 F.3d 449,



difference in wording between the state statutes and the Federal Act the court in *Ringling* held that there must (1) be a sufficient similarity between the marks to bring about an instinctive mental association, which is (2) the effective cause of (3) actual harm to the famous mark's economic value. They looked for actual harm to the mark's selling power, which can be proved by actual loss of revenues. The court in *Nabisco* construed an expansive, non-exhaustive, non-exclusive ten-factor test to establish a likelihood of dilution. The reasoning behind only requiring a likelihood of dilution, is that dilution is an infection, which, if allowed to spread, would destroy the mark's advertising value and ability to serve as a unique identifier. Much criticism was leveled against both cases and scholars commenting on the interpretation of the Federal Act were divided on this issue. In 2003 the debate was brought to a head by the Supreme Court's decision of *Moseley v. V Secret Catalogue*.<sup>634</sup> The court held that the Federal Trademark Dilution Act unambiguously requires a showing of actual dilution. The mere fact that consumers mentally associate the junior user's mark with the famous mark, is not a sufficient ground to establish actionable dilution. The decision was quite controversial and left more questions than answers. Congress reacted with the introduction of the Trademark Dilution Revision Act of 2005, which is not enacted yet. Use of a mark "likely to cause dilution by blurring or dilution by tarnishment" of a famous mark is made actionable.

Blurring and tarnishment are the types of dilution which arise most frequently in the case law. In the proposed Trademark Dilution Revision Act of 2005 dilution is also defined in terms of blurring and tarnishment. Blurring is seen as the classic type of dilution. It presumes some kind of mental association in the minds of reasonable consumers. However, there is still no quick formula to determine whether dilution by blurring has occurred. In some cases the well-known "Sweet Test" is still accepted as a means to determine blurring, while in other cases it is rejected as totally inappropriate. Again some clarity will be brought by the Revision Act, which lists six specific factors that may

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1999 U.S. App. LEXIS 4179, 50 U.S.P.Q.2d 1065 (4<sup>th</sup> Cir. 1999) and *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 1999 U.S. App. LEXIS 20786, 51 U.S.P.Q.2d (BNA) 1882 (2<sup>nd</sup> Cir. 1999). See Chapter 4.10.4 "Likelihood of Dilution vs Actual Dilution" *supra* and other cases discussed there.

<sup>634</sup> *Moseley v. V Secret Catalogue, Inc.*, 123 S. Ct. 1115 (2003). See Chapter 4.10.4 "Likelihood of Dilution vs Actual Dilution" *supra*.



be used to determine blurring.

The retroactive application of the Dilution Act is also one of the unsettled aspects of the law. After some conflicting district court decisions, the issue was addressed by the Eighth Circuit Court in *Viacom v. Ingram Enterprises*,<sup>635</sup> where the court concluded that the Federal Trademark Dilution Act has retroactive effect, but only in the context of injunctive relief.

The above synopsis shows how trade-mark dilution law in the United States has developed over the past seventy-six years. The concept started in theory, was further developed in state statutes in approximately half of the states and finally became part of federal statutory law by way of the Federal Trademark Dilution Act. Although there are still controversial issues regarding the application of this Act, trade-mark dilution law has reached the point where trade-mark proprietors can protect their most valuable asset against the dilution of its distinctive quality.

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<sup>635</sup> *Viacom Inc. v. Ingram Enterprises Inc.*, 141 F.3d 886, 46 U.S.P.Q.2d 1473 (8<sup>th</sup> Cir. 1998).



## CHAPTER 5

### EUROPEAN UNION LAW<sup>1</sup>

#### 5.1 INTRODUCTION

The first statutory dilution protection for trade marks in Europe, is found in the Uniform Benelux Trade Marks Act<sup>2</sup> of the Benelux Countries,<sup>3</sup> which came into effect on 1 January 1971. In the *Claeryn/Klarein* case<sup>4</sup> of 1975 the Benelux Court of Justice interpreted this provision so as to protect trade marks from uses on non-similar products even when there was no likelihood of confusion.<sup>5</sup> But there was still a long road ahead before dilution protection would be given its full effect in the Member States of the European Union.

The European Economic Community (EEC) was formed in 1957 by the Treaty of Rome.<sup>6</sup> The purpose was to create a unified economic Europe. In 1993 the European Union emerged from the EEC.<sup>7</sup> The European Commission, one of the institutions established

<sup>1</sup> Until 1 May 2004 the following countries were members of the European Union: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Portugal, Spain, Sweden, the Netherlands and the United Kingdom. On 1 May 2004 the following states also joined the European Union: Poland, Czech Republic, Hungary, Lithuania, Slovakia, Cyprus, Estonia, Latvia, Slovenia and Malta. See [http://europa.eu.int/institutions/council/index\\_en.htm](http://europa.eu.int/institutions/council/index_en.htm).

<sup>2</sup> Art. 13A(2).

<sup>3</sup> The Benelux Economic Union was founded on 3 February 1958 between Belgium, the Netherlands and Luxembourg. See further on trade-mark law in the Benelux Countries Chapter 5.7.1 "Benelux Law" *infra*.

<sup>4</sup> *Colgate-Palmolive BV v NV Koninklijke Distilleerderijen Erven Lucas Bols*, BCJ 1 March 1975 [1975] N.J. 472.

<sup>5</sup> See the discussion in Chapter 5.7.1.5 "Article 13A(2) of the Uniform Benelux Trade Marks Act" *infra*. See further Vuk WT "Protecting Baywatch and Wagamama: Why the European Union Should Revise the 1989 Trademark Directive to Mandate Dilution Protection for Trademarks" (1998) 21 *Fordham International Law Journal* 861 at 864.

<sup>6</sup> Treaty Establishing the European Economic Community, 25 March 1957, 298 U.N.T.S. 11, 1973 Gr. Brit. T.S. No. 1 (Cmd. 5179-II). See Chapter 5.4 "The European Economic Community" *infra*.

<sup>7</sup> Maastricht Treaty or Treaty on European Union, 7 February 1992, art.G., O.J. C224/1, at 5 [1992] 1 C.M.L.R. at 719, 31 I.L.M. 247. See also Vuk (1998) 883 fn 110.



by the then EEC, enacted the Trademark Directive<sup>8</sup> in 1989. Two of the provisions appear to afford trade marks protection for uses that cause dilution.<sup>9</sup> Five years after the enactment of the Trademark Directive, the European Council issued the Community Trade Mark Regulation (CTMR)<sup>10</sup> on 20 December 1993. This regulation, unlike the Directive, has immediate effect within the Member States from the date of commencement, namely 15 March 1994. The two previously mentioned provisions on dilution were also incorporated into the CTMR.

Both "dilution" provisions from the Trademark Directive were also incorporated into the United Kingdom's Trade Marks Act of 1994.<sup>11</sup> These sections were first interpreted by the English Chancery Division<sup>12</sup> and after that, also by the Court of Justice of the European Communities.<sup>13</sup>

This Chapter will examine trade-mark dilution law as it developed in the European Union with specific reference to the Trademark Directive and decisions by the Court of Justice of the European Communities. The law of four Member States of the European Union was also chosen to show how the Trademark Directive was incorporated into national law and interpreted by national courts. The law of the three Benelux countries was chosen, because the first statutory dilution protection for trade marks in Europe is found in the Benelux. The other Member State chosen is the United Kingdom. Historically, South Africa has strong bonds with the United Kingdom. The South African Trademark Statutes for many years also closely followed their British counterparts. The United

<sup>8</sup> First Council Directive 89/104 of 21 December 1988 to Approximate the Laws of the Member States Relating to Trade Marks. See Davies IM (general editor) *Sweet & Maxwell's European Trade Mark Litigation Handbook* (1998) Sweet & Maxwell London 695-706 Appendix A for the text. See also Chapter 5.5 "The European Union and The Trademark Directive" *infra*.

<sup>9</sup> Art. 5(1) & (2) "Rights conferred by a trade mark". See Vuk (1998) 864, 884. See further Chapter 5.5.3 "Dilution Provisions" *infra*.

<sup>10</sup> Council Reg. No. 40/94 on the Community Trade Mark, [1994] O.J. L11/1 [1995] O.J. O.H.I.M. 50; [1995] O.J. O.H.I.M. 511. See Davies (1998) 707-776 Appendix B for the text of this Regulation. See also Chapter 5.6 "The Community Trade Mark" *infra*.

<sup>11</sup> S 10(2) & (3). See Chapter 5.7.2 "The United Kingdom" *infra*.

<sup>12</sup> *Wagamama Ltd v City Centre Restaurants plc*. [1995] F.S.R. 713; [1996] E.T.M.R. 23 and *Baywatch Productions Co. Inc. v Home Video Channel Ltd*. [1997] F.S.R. 22, discussed in Chapter 5.7.2.3 "Cases on Section 10(2)" and Chapter 5.7.2.4 "Cases on Section 10(3)" *infra*.

<sup>13</sup> See Case C-251/95, *SABEL B.V. v Puma A.G.* [1998] E.T.M.R. 1 and other cases discussed in Chapter 5.8 "Judgments of the Court of Justice of the European Communities" *infra*.



Kingdom law is also interesting from a different perspective. The application of dilution law in the United Kingdom was initially interpreted very conservatively, especially when compared to that of the Benelux Countries.

## 5.2 STATUTORY DEVELOPMENT OF TRADE-MARK LAW IN EUROPE

In the United Kingdom the first Act that provided for a registration system in trade-mark law was the Trade Marks Registration Act of 1875.<sup>14</sup> This Act was preceded by investigations of a Select Committee of the House of Commons in 1862.<sup>15</sup> The Act did not replace the common-law system, but rather added to it the formal protection given to registered trade marks. Provision was made for the registration of trade marks in respect of goods. This registration served as *prima facie* proof of the proprietor's title and was made a condition for the institution of infringement proceedings.<sup>16</sup> Use of this registration process led to nation-wide protection. The scope of the monopoly was, however, limited in several ways. One way was by just allowing registration in respect of goods upon which the applicant used the mark or intended to use the mark.<sup>17</sup> Primary emphasis was also placed on distinctiveness. The mark had to consist of one of the following essential particulars: the name of an individual represented in a particular and distinctive manner, the signature of an individual or firm or any distinctive device, mark, heading, label or ticket.<sup>18</sup>

The 1875 Act was repealed and replaced in 1883 by the Patents, Designs and Trade Marks Act,<sup>19</sup> which was in essence just a rephrasing of the previous Act, but for the expansion of the essential particulars. Interpretation difficulties led to the enactment of

<sup>14</sup> 38 and 39 Vict, c 91; Beier F-K "Basic Features of Anglo-American, French and German Trademark Law" (1975) *International Review of Industrial Property and Copyright Law* 285 at 288.

<sup>15</sup> Webster CE & Morley GE *Webster & Page South African Law of Trade Marks, Unlawful Competition, Company Names and Trading Styles* 4<sup>th</sup> ed (1997) Butterworths Durban par 1.2.

<sup>16</sup> Webster & Page (1997) par 1.2. The term "owner of a trade mark" is sometimes used synonymously for "proprietor" in the law of the United Kingdom. See for example Davies (1998) 574, 575.

<sup>17</sup> Wheeldon R "Trade Mark Dilution – What is it?" Lecture notes 6.

<sup>18</sup> Webster & Page (1997) par 1.2.

<sup>19</sup> 46 and 47 Vict, c 57.



yet another Act in 1888.<sup>20</sup> The next important development was the introduction of the Trade Marks Act of 1905,<sup>21</sup> which for the first time defined a trade mark. In terms of the definition it was now also possible to register trade marks "proposed to be used", and not only marks already in use. The most important feature of the 1919 Amendment Act, was the division of the register in Parts A and B.<sup>22</sup>

An important shift in the whole approach to trade marks took place in 1938. The possibilities of assigning the rights in a trade mark without the goodwill and of licensing the use of registered marks was incorporated into the Trade Marks Act of 1938.<sup>23</sup> This indicated a departure from the narrow view of the function of a trade mark as indicating only the origin of the goods. Defensive registrations<sup>24</sup> were also introduced by this Act, making it possible for a proprietor, under certain conditions, to register his mark for goods in relation to which he did not intend to use it.

To fulfil its obligations in terms of the European Directive<sup>25</sup> and the Madrid Protocol Relating to the International Registration of Marks, the United Kingdom adopted a new Trade Marks Act in 1994.<sup>26</sup> This has profound implications for the development of British trade-mark law, as the United Kingdom, with the exception of Scotland, has a common-law system in contrast with the European civil-law tradition.<sup>27</sup>

For example, the French trade-mark system, being a civil-law system, differs to a great extent from the Anglo-American system. Trade marks form the subject of an absolute property right, which can be acquired by use or registration. Interestingly enough,

<sup>20</sup> 51 and 52 Vict, c 50. See Webster and Page (1997) par 1.2 for more detail.

<sup>21</sup> 5 Edw 7 c 16.

<sup>22</sup> Part B afforded limited protection to marks, which were not distinctive, but were nevertheless capable of distinguishing through use. The question whether a mark is inherently capable of distinguishing is a question of fact. See Webster & Page (1997) par 1.2; 3.40 – 3.49A.

<sup>23</sup> 1 and 2 Geo 6 c 22. Webster & Page (1997) par 1.2.

<sup>24</sup> See Chapter 6.2.2 "Defensive Registrations" *infra* for a discussion.

<sup>25</sup> First Council Directive of 21 December 1988 (Directive 89/104) to Approximate the Laws of the Member States Relating to Trade Marks. See Chapter 5.5 "The European Union and The Trademark Directive" *infra*.

<sup>26</sup> See Chapter 5.7.2 "The United Kingdom" *infra*.

<sup>27</sup> See Welkowitz DS "Protection against Trademark Dilution in the U.K. and Canada: Inexorable Trend or Will Tradition Triumph?" (2000) 24 *Hastings International and Comparative Law Review* 63 at 70.



registration takes place without examination and no requirement of use exists. The mark is furthermore an independent asset of the business and also separate from the goodwill of the business and, therefore, freely assignable.<sup>28</sup> Licensing is also possible. The mark then no longer fulfils its functions to designate and to distinguish in the course of trade.

French law was from the beginning characterised by both unfair competition and registration rights. This led to the problem of the relationship between first use and registration. The solution inevitably given by the legislature was that in cases where there was conflict between marks, the first user had priority over the first registrant. Registration thus only had a declaratory effect. If a mark was, however, first registered and subsequently used by another, the registrant would get the better right. This system was called "priority of occupation".<sup>29</sup>

Fundamental reform of the French trade-mark system took place and culminated in the Trademark Act of 31 December 1964. Beier<sup>30</sup> noted two fundamental changes. First, a requirement of use was instituted. Non-use of a registered mark for more than five years leads to the loss of trade-mark rights. Secondly, exclusive trade-mark rights can now only be obtained by registration. The principle of first use was abandoned. Provision is however made for notorious marks. If a mark has become notorious as a result of increasing and widespread use, the proprietor may request that the registration of a confusingly similar mark be invalidated, but the proprietor must however first register his notorious mark. The influence of article 6*bis* of the Paris Convention is clear, although this section does not require registration before injunctive relief is sought.<sup>31</sup>

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<sup>28</sup> Beier (1975) 295, 296

<sup>29</sup> Beier (1975) 296.

<sup>30</sup> Beier (1975) 297.

<sup>31</sup> Beier (1975) 298. Article 6*bis* of the Convention of Paris for the Protection of Industrial Property of 1883, as revised, provides the following: "(1) The countries of the Union undertake, ....., to refuse or to cancel the registration, and to prohibit the use, of a trade mark which constitutes a reproduction, an imitation, or a translation, liable to create confusion, of a mark considered by the competent authority of the country of registration or use to be well-known in that country as being already the mark of a person entitled to the benefits of this Convention and used for identical or similar goods..." See Webster & Page (1997) Appendix 6 for a copy of the text. See also Chapter 6.3.4.1 "The Paris Convention" *infra*.



The first German Trade-Marks Act was promulgated in 1874, one year before its British counterpart. They had no common-law system of unfair competition or passing off before that date. A strict registration system was thus followed. The first applicant had the better right, even if someone else had previously used the mark extensively. This formalistic approach led to many reserve and defensive marks being registered, without any actual use or an intention to use. Unfair competition principles were only introduced in German law after 1900. As a result registration alone was no longer the only means of acquiring trade-mark rights. Substantial use resulting in goodwill or reputation was an independent basis for acquiring trade-mark rights. A statutory requirement of use within five years was only introduced as a condition for registration in 1968.<sup>32</sup>

### 5.3 EARLY ORIGINS OF DILUTION IN EUROPE

The dilution doctrine apparently originated in Germany in 1924.<sup>33</sup> The court actually created the concept of dilution when finding that trade-mark infringement had occurred by the use of an identical trade mark on dissimilar products. The trade-mark owner applied for the cancellation of the registration of ODOL for steel products. He held the trade mark ODOL for mouthwash. The Elberfield court noted that the trade mark ODOL was famous and had acquired selling power.<sup>34</sup> The court found that consumers would think of the mouthwash whenever they were exposed to ODOL on steel products and would assume that the steel products were also of a high quality. The ODOL trade mark on mouthwash would therefore be diluted.<sup>35</sup> Any lessening of the value of the trade mark

<sup>32</sup> Beier (1975) 299-302.

<sup>33</sup> Civil Court, Elberfield, 25 *Juristische Wochenschrift* 502; XXV *Markenschutz Und Wettbewerb* 264, 11 September 1925 (Germany). Some writers, for example, Derenberg WJ "The Problem of Trade-mark Dilution and Anti-Dilution Statutes" (1956) 44 *California Law Review* 439, 448-449, state that the dilution concept was first developed in the English case of *Eastman Photographic Materials Co. v John Griffith Corp.*, 15 R.P.C. 105 (UK) (1898) and also *Walter v Ashton* [1902] 2 Ch 282. But according to Vuk (1998) 893 fn 170 the *Eastman* case does not establish dilution, because the court specifically finds a likelihood of confusion, although it involved different goods. See also Martino T *Trademark Dilution* (1996) Clarendon Press Oxford 4 fn 1 where he states that both these English decisions were couched in the language of passing off, with explicit findings of likelihood of confusion. Martino says that the courts "were proscribing the harm of dilution under a traditional likelihood of confusion rationale".

<sup>34</sup> Martino (1996) 4. This case is also briefly mentioned in Chapter 3.1 "The Development of Dilution as a Legal Concept" *supra*.

<sup>35</sup> The court used the word *verwässert*, meaning diluted and not dilution (*verwässerung*). See Martino (1996) 5 fn 21.



would negatively affect the ability of the trade-mark owner in competing with other mouthwashes. The decision was, however, not based on any particular theory of German trade-mark registration, but upon general principles of fair trade.<sup>36</sup>

## 5.4 THE EUROPEAN ECONOMIC COMMUNITY

### 5.4.1 BACKGROUND AND AIM

In 1951 the European Coal and Steel Community (ECSC) was founded by Belgium, France, Germany, Italy, Luxembourg and the Netherlands to regulate production and to promote free trade in the coal and steel industries.<sup>37</sup> The six ECSC members were prompted by the success of this initiative to sign the Treaty of Rome in 1957,<sup>38</sup> which established the European Economic Community (EEC). The purpose of this organisation was the establishment of criteria for political and economic integration of the Member States. The Member States agreed to give up national sovereignty in certain areas covered by the Treaty in an attempt to further the idea of a unified economic Europe.<sup>39</sup>

### 5.4.2 COMPOSITION AND FUNCTIONS

The European Commission, the Council of Ministers and the European Court of Justice (ECJ), now the Court of Justice of the European Communities (CJEC), were all established by the Treaty of Rome. The Commission acts as the executive body of the European Union.<sup>40</sup> It is the role of the Commission to ensure that Member States introduce and enforce legislation to comply with the European Community Treaty and it

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<sup>36</sup> Vuk (1998) 863, 892.

<sup>37</sup> Treaty Establishing the European Coal and Steel Community, 18 April 1951, 261 U.N.T.S. 140. See Vuk (1998) 885.

<sup>38</sup> Also known as the Treaty Establishing the European Economic Community, 25 March 1957, 298 U.N.T.S. 11, 1973 Gr. Brit. T.S. No. 1 (Cmd.5179-II), as amended by Single European Act, O.J. L 169/1 (1987), [1987] 2 C.M.L.R. 741.

<sup>39</sup> Vuk (1998) 885.

<sup>40</sup> Treaty Establishing the European Community, 7 February 1992, art. 155, [1992] 1 C.M.L.R. at 682. Vuk (1998) 886.



also has the power to institute proceedings before the Court of Justice of the European Communities should a Member State not fulfil its obligations.<sup>41</sup>

Each country is represented on the Council of Ministers, the legislative body of the European Union.<sup>42</sup> This Council is mainly responsible for the harmonisation of the national laws of the different Member States. The Council operates by the issuing of directives that are binding as to the result to be achieved.<sup>43</sup> Each member, therefore, has the freedom to choose its own form and method to achieve these results. They are, for example, allowed to freely interpret the provisions in the Trademark Directive. This has resulted in one Member State, the United Kingdom, not offering trade marks full protection from dilution under either of the two provisions in the Trademark Directive which appear to provide for dilution protection.<sup>44</sup>

The CJEC is logically the judicial branch of the European Union and was prior to the recent expansion, comprised of fifteen judges, one from each Member State, and nine Advocate-Generals.<sup>45</sup> The CJEC has jurisdiction in disputes where the Commission or a Member State takes action due to the alleged failure of another Member State to comply with its Treaty obligations. The Court must also give guidance on the interpretation of the Treaty, if requested to do so by the court of a Member State. The national court must then apply such an interpretation to the case before it.<sup>46</sup> In this sense the relationship between the CJEC and the national court can be viewed as a partnership. The CJEC's ability to give guidance is entirely dependent on the information given and questions put forward by the referring national court.<sup>47</sup> The role of an Advocate-General can be

<sup>41</sup> See art. 169 of the EC Treaty at 686.

<sup>42</sup> Art. 145, 146 of the EC Treaty at 679-680.

<sup>43</sup> Art. 100 of the EC Treaty at 633 and Treaty on the European Union, 7 February 1992, art. 189 O.J. C224/1, at 65 (1992), [1992] 1 C.M.L.R. at 693-94.

<sup>44</sup> Vuk (1998) 906; Welkowitz (2000) 69. See also discussion in Chapter 5.7.2.3 "Cases on Section 10(2)" and 5.7.2.4 "Cases on Section 10(3)" *infra*.

<sup>45</sup> Art. 164-187 of the EC Treaty at 684-691.

<sup>46</sup> See for example Case C-342/97, *Lloyd Schuhfabrik Meyer & Co GmbH v Klijsen Handel B.V.* [1999] E.C.R. I-3819; [1999] E.T.M.R. 690 par 11.

<sup>47</sup> Norman H "Perfume, Whisky and Leaping Cats of Prey: A UK Perspective on Three Recent Trade Mark Cases before the European Court of Justice" (1998) 8 *European Intellectual Property Review* 306. See, for example, the *SABEL B.V. v Puma A.G.*-case discussed in Chapter 5.8.1 "The Interpretation of Articles 4(1)(b) and 5(1)(b)" *infra*.



described as follows.<sup>48</sup> He presents an advisory opinion prior to the court's decision to aid the judges of the court. His role has been described as analogous to that of an individual judge (under the civil-law system) charged with the preparation of the case. He remains separate from the judges deciding the case.

From 1978 until 1993 the ECSC, the EEC and the European Atomic Energy Community were collectively referred to as the European Community.<sup>49</sup> In 1993 the term "European Community" was replaced with "European Union" by the Maastricht Treaty or Treaty on European Union.<sup>50</sup>

## 5.5 THE EUROPEAN UNION AND THE TRADEMARK DIRECTIVE

### 5.5.1 BACKGROUND TO THE DIRECTIVE

Already in 1959 a decision was taken by the European Commission to harmonise and unify intellectual property law in Europe.<sup>51</sup> The aim was to create unitary intellectual property laws, which could supplement the national laws of Member States. The idea was that these national laws would continue to exist. As a result, the first draft of a Convention for a European Trade Mark was completed in 1964. Discussions on this document only started in 1973 and after another three years the Memorandum on the creation of an EEC mark was published. The advantages of a European trade-mark system were expressly highlighted. The Commission however realised that national trade-mark laws would continue to exist. This could create serious obstacles for a European trade-mark system as the Member States' protection for trade marks would not be uniform and would contain disparities.<sup>52</sup> For this reason they decided to create a

<sup>48</sup> See Welkowitz (2000) 80 fn 80.

<sup>49</sup> Vuk (1998) 885.

<sup>50</sup> Maastricht Treaty or Treaty on European Union, 7 February 1992, art.G., O.J. C224/1, at 5 [1992] 1 C.M.L.R. at 719, 31 I.L.M. 247. See also [http://europa.eu.int/institutions/council/index\\_en.htm](http://europa.eu.int/institutions/council/index_en.htm).

<sup>51</sup> Gielen C "Harmonisation of Trade Mark Law in Europe: The First Trade Mark Harmonisation Directive of the European Council" (1992) 8 *European Intellectual Property Review* 262.

<sup>52</sup> See Vuk (1998) 887; Gielen (1992) 262.



mechanism for the approximation of national trade-mark laws.

At first the idea was to introduce a Community Trade Mark simultaneously with the implementation of a Directive to harmonise trade-mark law. This idea was abandoned in 1988 in view of the political problems of finding a place of establishment for the Community Trade Mark Office and the official languages to be used.<sup>53</sup> Drafts of the Directive were published in 1979, 1980, 1985 and 1986. On each draft opinions were given and changes suggested. This last version was the topic of much discussion and negotiations in the working group. The Dutch delegation went out of its way to convince the other delegates to incorporate the infringement criteria of the Benelux Trade Mark Act into the Directive.<sup>54</sup> This was done in the version of 15 December 1987.

### 5.5.2 FINAL ADOPTION AND AIM

After the advice of the Economic and Social Committee and the opinion of the European Parliament had been considered, the Trademark Directive was finally adopted by the Council on 21 December 1989.<sup>55</sup> The aim of this important document was to harmonise the legal protection afforded by Member States to trade marks in order to avoid disparities which could impede the free movement of goods or the freedom to provide services.<sup>56</sup> The motivation behind the Directive was that an internal economic market such as the European Union should not have different laws to protect trade marks.<sup>57</sup> Partly because of the expanding membership of the European Union in the years leading up to the implementation of the Directive, it became clear that it would take some time for harmonisation to take place.<sup>58</sup> It must be noted that the purpose of the Trademark Directive was not to bring "full scale approximation", but only to harmonise "those

<sup>53</sup> Gielen (1992) 262.

<sup>54</sup> See the discussion in Chapter 5.5.4 "Influence of the Benelux Law" *infra*.

<sup>55</sup> First Council Directive 89/104 of 21 December 1988 to Approximate the Laws of the Member States Relating to Trade Marks; Gielen (1992) 262.

<sup>56</sup> Turner-Kerr PM "Confusion or Association under the European Trade Mark Directive" (2001) 1 *European Intellectual Property Review* 49; Marroletti W "Dilution, Confusion, or Delusion? The Need for a Clear International Standard to Determine Trademark Dilution" (1999) 25 *Brooklyn Journal of International Law* 659 at 667.

<sup>57</sup> Gielen C "Likelihood of Association: What Does it Mean?" (1996) *Trademark World* 20.

<sup>58</sup> Compare Davies (1998) 31.



national provisions of law which most directly affect the functioning of the internal market".<sup>59</sup> The Directive further applies only to registered or deposited trade marks. Member States were required to incorporate the Trademark Directive into their own trade-mark laws by 31 December 1992.<sup>60</sup>

### 5.5.3 DILUTION PROVISIONS

Member States must, *inter alia*, give protection against infringing uses of a trade mark that cause a likelihood of confusion directly or through a likelihood of association.<sup>61</sup> Furthermore the Directive states that Member States may provide trade-mark protection against infringing uses which take unfair advantage of, or are detrimental to, the distinctive character or repute of the trade mark.<sup>62</sup>

The two previously mentioned provisions of the Trademark Directive that are important for this study, because they appear to provide dilution protection, are article 5(1) and 5(2) which read as follows:<sup>63</sup>

- "(1) The registered trade mark shall confer on the proprietor exclusive rights therein. The proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade:
  - (a) any sign which is identical with the trade mark in relation to goods or services which are identical with those for which the trade mark is registered;
  - (b) any sign where, because of its identity with, or similarity to, the trade mark and the identity or similarity of the goods or services covered by the trade mark and the sign,

<sup>59</sup> See Recital 1 of the Trademark Directive No L40/1 at 1; Gielen (1992) 262-3; Turner-Kerr (2001) 49.

<sup>60</sup> Trademark Directive art.16(1) & (2), O.J. L40/7. The date originally stated in article 16(1), 28 December 1991, was amended by Council Decision 92/10 in accordance with art. 16(2). See Davies (1998) 706 Appendix A. By the middle of 1992 it appeared that the process would take even longer and that probably only Denmark, France, Spain and Greece would complete the implementation of the Directive in time. See Gielen (1992) 262, 263.

<sup>61</sup> Trademark Directive art. 5(1)(b), Official Journal of the European Communities (O.J.) L40/4. See also art. 4(1)(b) which uses a similar provision as a refusal or invalidity criterion.

<sup>62</sup> Trademark Directive art. 5(2), O.J. L40/4 and see also art. 4(3) and 4(4)(a), which are again the refusal and invalidity provisions.

<sup>63</sup> Art. 5(1) & (2) "Rights conferred by a trade mark".



there exists a likelihood of confusion on the part of the public, which includes the likelihood of association between the sign and the trade mark.<sup>64</sup>

- (2) Any Member State may also provide that the proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade any sign which is identical with, or similar to, the trade mark in relation to goods or services which are not similar to those for which the trade mark is registered, where the latter has a reputation in the Member State and where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark.”

Protection is thus specifically required where there exists a likelihood of confusion “which includes the likelihood of association” between the sign and the trade mark. The Trademark Directive does, however, not specifically mandate the Member States to give protection against uses that dilute the distinctiveness of a trade mark, but leaves the option open. It states that they “may provide” trade marks that have reputations with this additional protection.<sup>65</sup> The purpose of Article 5(2) is set out in Recital 9 of the Directive, namely to provide “extensive protection to those trademarks with a reputation”. Since it was optional and also because each Member State had to implement the directive in its own legislation with its own interpretation, protection for trade-mark dilution has been applied inconsistently.<sup>66</sup> All the provisions in the Directive, both mandatory and optional, are, however, exhaustive, meaning that the Member States have no power to alter them.<sup>67</sup>

It is clear from the structuring of the infringement provisions that dilution is not a separate remedy in the Directive. On the contrary, it is written into the general trade-mark infringement section and interwoven with notions of traditional trade-mark infringement. This spells problems for the implementation and interpretation of these

<sup>64</sup> Most language versions of the Directive use the notion of “risk” or “danger” of confusion or association. The Dutch and Swedish versions use the concepts of possibility of confusion and risk of association. The English version uses the notion of likelihood of confusion or association. See Case C-425/98, *Marca Mode CV v Adidas A.G. and Adidas Benelux B.V.*, [2000] E.C.R. I-4861 par 4.

<sup>65</sup> Vuk (1998) 868. See also the discussion of these provisions in Chapter 5.6 “The Community Trade Mark” *infra*.

<sup>66</sup> Marroletti (1999) 668.

<sup>67</sup> Gielen (1992) 264.



provisions, especially by the courts of Member States.

#### 5.5.4 INFLUENCE OF THE BENELUX LAW

The first proposal for the Directive in 1980 was very restrictive and used words such as “serious risk of confusion” and also stated that the only function of a trade mark is that of an indicator of origin.<sup>68</sup> The rationale was that there must be a serious likelihood of confusion before impediments to the principle of free movements of goods will be allowed. The protection of well-known or reputed marks was totally excluded.<sup>69</sup> The Benelux countries feared that by these restrictive provisions protection of trade marks in the Benelux countries would be seriously weakened. In the 1985-version the word “serious” was deleted, but there was still no protection for trade marks in cases where similar marks were used on non-similar goods. The Benelux nations’ delegates had an extremely difficult task in persuading the European Commission and the other delegates to widen the infringement criteria. In the end they succeeded and the concept of risk of association was included in the final version of the Trademark Directive as the “likelihood of association”, although as a compromise.<sup>70</sup> The wording of article 5(2) was changed from reading that the mark needed to be *famous* to qualify for protection to that it merely needed to have a *reputation*.<sup>71</sup> Article 5(5) was also added to reflect Benelux practice.<sup>72</sup> In the end it can be said that the Directive was heavily influenced by Benelux law.<sup>73</sup> Still, it is an adaptation of the Benelux law and also reflects other European

<sup>68</sup> Gielen (1996 *TW*) 21; Gielen (1992) 266.

<sup>69</sup> Gielen (1992) 266. The first draft of the Community Trade Mark Regulation also used the words “serious risk of confusion”, although it incorporated protection for well-known marks.

<sup>70</sup> Harris PA “Wagamama: Confusion Still Reigns in the UK” (1995) *Trademark World* 13; Gielen (1992) 266; Harris PA “UK Trade Mark Law: Are You Confused?” (1995) 12 *European Intellectual Property Review* 601-602; Schmidt HKS “‘Likelihood of Confusion’ in European Trademarks – Where are we now?” (2002) 10 *European Intellectual Property Review* 463; Marroletti (1999) 670; Carty H “Do Marks with a Reputation Merit Special Protection?” (1997) 12 *European Intellectual Property Review* 684 at 685.

<sup>71</sup> For the possible interpretations of this concept, see Chapter 5.7.2.5 “The Key Concepts of Section 10(3) (iv) Reputation” and Chapter 5.8.2 “The Interpretation of Article 5(2)” *infra*.

<sup>72</sup> Kamperman Sanders A “The Return to Wagamama” (1996) 10 *European Intellectual Property Review* 521 at 523. Art. 5(5) deals with the protection against use of a mark other than for the purposes of distinguishing goods and services. Thus, the Benelux law did not have to change in this respect. This provision was included as art. 13A(1)(d) of the new Benelux Trade Mark Law.

<sup>73</sup> Gielen (1992) 264. See also Schwartz D & Morfesi D “Dilution Comes of Age: the United States, Europe and South Africa” (1997) 87 *The Trademark Reporter* 436 at 449.



systems, which have always been reluctant to grant too much protection to trade marks. The Directive will also be applied by a European court, which also implies a different approach from those of the Benelux courts.<sup>74</sup>

### 5.5.5 MEANING OF "LIKELIHOOD OF ASSOCIATION"

Unfortunately, there was no explanatory memorandum accompanying the Directive (or the Regulation) as to what is meant with the words "likelihood of association". There are, however, some indications in the preamble at the beginning of the text of the Trademark Directive (and the CTMR).<sup>75</sup> The paragraph in which there is a reference to the "risk of association" states the following:

"[W]hereas the likelihood of confusion, the appreciation of which depends on numerous elements and, in particular, on the recognition of the trademark on the market, of the association which can be made with the used or registered sign, of the degree of similarity between the trademark and the sign and between the goods or services identified, constitutes the specific condition for such protection;..."

This does, however, not explain how the notion "likelihood of association" must be interpreted. Professor Gielen firmly believes that the European Directive offers the possibility of using the concept as developed under Benelux law.<sup>76</sup> He also believes that this interpretation is needed for the functioning of trade marks in the modern day-to-day market reality.<sup>77</sup> He gives the following motivation for his point of view. In the first place, the function of a trade mark is indicated in the preamble to the Trademark Directive (and the CTMR) as being "*in particular* to guarantee the trade mark as an

<sup>74</sup> Casparie-Kerdel S "Dilution Disguised: Has the Concept of Trade Mark Dilution Made its Way into the Laws of Europe?" (2001) 4 *European Intellectual Property Review* 185 at 191. At 194 she says: "[T]he already very ambiguous provisions of the Benelux infringement section have further been modified, turning them into a new provision in the Directive which is unclear both linguistically and logically."

<sup>75</sup> Tenth recital to the Trademark Directive and seventh recital to the CTMR; Gielen (1996 *TW*) 21.

<sup>76</sup> In the Benelux law the notion of dilution was thought to be incorporated in the Act through the concept of association, as will be explained in Chapter 5.7.1.3 "'Likelihood of Association' in the Benelux Law" *infra*.

<sup>77</sup> Gielen (1996 *TW*) 22, 23; Gielen (1992) 267. The development of the concept under Benelux law is explained in Chapter 5.7.1.3 "'Likelihood of Association' in the Benelux Law" *infra*.



indication of origin", which opens up the possibility that a trade mark can fulfil other functions as well.<sup>78</sup> Other functions, such as the communication, publicity and goodwill functions, are in fact protected by the Directive in the wording of the so-called dilution provisions in articles 4(3), 4(4)(a) and 5(1)(b).<sup>79</sup> Secondly, the words "likelihood of association" are included in the infringement provision as "likelihood of confusion, which includes the likelihood of association". The way in which it was structured, is rather strange and described as contradictory, ambiguous and even linguistically incorrect,<sup>80</sup> because the likelihood of association concept is much wider than the likelihood of confusion. Gielen, however, sees this structuring as leaving the room open for a very broad interpretation of the "likelihood of confusion"-concept, as applied under Benelux law.<sup>81</sup> If a risk of confusion is, for example, established in Benelux law, the risk of association is taken as given.<sup>82</sup>

Gielen also find support for his point of view in two documents called "Statements for entry in the Minutes of the Council Meeting" at which the Directive and CTMR were adopted.<sup>83</sup> As these Statements were partly meant to clarify certain provisions in the documents mentioned, they could have an interpretative value.<sup>84</sup> The European Council notes in these Statements, that "'likelihood of association' is a concept which in

<sup>78</sup> Tenth recital to the Trademark Directive. Emphasis added. See also Chapter 2 "The Socio-Economic Functions of Trade Marks" *supra*.

<sup>79</sup> This is clearly indicated by Gielen (1996 *TW*) 21.

<sup>80</sup> Davies (1998) 154; Harris (1995 *EIPR*) 602; Casparie-Kerdel (2001) 191. See too Kamperman Sanders (1996 *EIPR*) 521 who also uses the word "ambiguous" to describe the equivalent s 10(2) in the United Kingdom Trademarks Act of 1994.

<sup>81</sup> Gielen (1992) 267. Kamperman Sanders (1996 *EIPR*) 521 also sees it in this way. He goes even further by holding that this article expressly provides for the dilution doctrine. He finds justification for this point of view in the internal structure of the infringement provisions, as discussed in Chapter 5.7.2.3 "Cases on Section 10(2)" *infra* under the *Wagamama* judgment. See also Kamperman Sanders A "The *Wagamama* Decision: Back to the Dark Ages of Trade Mark Law" (1996) 1 *European Intellectual Property Review* 4-5.

<sup>82</sup> Davies (1998) 154; Gielen (1992) 267.

<sup>83</sup> Gielen (1996 *TW*) 22; Gielen (1992) 267. See also Harris (1995 *EIPR*) 602; Annand RE "Lookalikes under the New United Kingdom Trade Marks Act 1994" (1996) 86 *Trademark Reporter* 142 at 154.

<sup>84</sup> These statements are not intended to form part of the legal instruments themselves (the Directive or Regulation), and therefore cannot be added as separate legislative texts to the instruments. But they certainly have a function. The usefulness of these statements in interpreting the provisions of the Directive and Regulation will however depend on aspects such as the nature of the statement and who made the statement, for example was it unilaterally made by one or more of the member countries or was it a common statement made jointly by the Commission and Council. See Gielen C "European Trade Mark Legislation: The Statements" (1996) 2 *European Intellectual Property Review* 83 at 83, 87.



particular has been developed by Benelux case-law".<sup>85</sup> This seems clear enough to make it possible to consult Benelux case-law for the interpretation of the phrase, rather than German law where this concept also exists, but with a different meaning.<sup>86</sup>

However, in the *Wagamama* case in the United Kingdom Justice Laddie of the High Court was not prepared to accept this possibility.<sup>87</sup> One of the reasons was that the Minutes of the Council Meeting, in which the Statements were incorporated, were considered privileged information and not available to the public. Although that was true at that stage, this argument is no longer relevant as the Statements now have been published.<sup>88</sup> It was thought that to apply a mere test of association to compare the mark and the sign would stretch the scope of protection too far.

## 5.6 THE COMMUNITY TRADE MARK

As said in the Introduction, the Community Trade Mark Regulation (CTMR) was enacted by the European Council in 1993.<sup>89</sup> The Office for Harmonisation of the Internal Market (OHIM) was established by this Regulation. After years of debate it was finally decided that this office will be located in Alicante, Spain. This Council Regulation creates the possibility that a trade-mark owner can apply for a uniform trade-mark right. This means that he can, on the basis of one registration, get an exclusive right covering the whole territory of the European Union. This system will function next to the national trade-mark system, which will continue to exist.<sup>90</sup> OHIM's function is the registration and administration of Community trade marks. It became operative on 1 April 1996 and by 31 December 1996 OHIM had already received 43 000 applications for the registration of

<sup>85</sup> Statement 5(b) Directive and Statement 6 Regulation [1996] O.J. O.H.I.M. 607. Copies of both these Statements are also annexed to an article written by Gielen as Appendix 1 and Appendix 2. See Gielen (1996 *EIPR*) 87-89.

<sup>86</sup> Davies (1998) 153; Gielen (1996 *TW*) 22; Gielen (1996 *EIPR*) 87; Harris (1995 *TW*) 13.

<sup>87</sup> See discussion in Chapter 5.7.2.3 "Cases on Section 10(2)" *infra*.

<sup>88</sup> [1996] O.J. O.H.I.M. 607. Official publication of the Statements was, for various reasons, strongly promoted by Professor Gielen. See Gielen (1996 *TW*) 22-23; Gielen (1996 *EIPR*) 87.

<sup>89</sup> Council Reg. No. 40/94 of 20 December 1993 on the Community Trade Mark, [1994] O.J. L11/1 [1995] O.J. O.H.I.M. 50; [1995] O.J. O.H.I.M. 511. See Davies (1998) 707-776 Appendix B for the text of this Regulation.

<sup>90</sup> Gielen (1996 *TW*) 20; Gielen (1992) 263.



Community trade marks.<sup>91</sup> The European Commission also made several other regulations concerning the functioning of the OHIM.<sup>92</sup> Additional procedural provisions are contained in various decisions of the President of the OHIM, which are published in its Official Journal.

Binding decisions of the OHIM can be contested by means of an appeal filed with the OHIM. Actions against the decisions of the Board of Appeal may then be brought before the Court of First Instance at Luxembourg.<sup>93</sup> These decisions can be contested further in an appeal brought before the CJEC.<sup>94</sup> This appeal can only be based on a point of law and no new facts can be brought before the court. The CJEC can also only annul, not alter, the judgment of the Court of First Instance.<sup>95</sup>

The CTMR is essentially a supranational instrument of trade mark protection.<sup>96</sup> One of the most important aims of the Community trade mark was to create a mechanism to overcome the barrier of territoriality on the rights conferred to proprietors of trade marks and also to further unrestricted economic activity in the Common Market.<sup>97</sup> It is clear from article 6 that a CTM can only be obtained by registration.

Where the trade marks and or the goods are similar and there is the likelihood of confusion, which includes the likelihood of association, the earlier trade mark is protected.<sup>98</sup> This article was inspired by the Benelux law, but is interpreted differently in

<sup>91</sup> Davies (1998) 33; Gielen (1996 *TW*) 20. Filing of applications was already permitted from 1 January 1996. See also Rangel-Ortiz H "Well-Known Trademarks Under International Treaties: Regional Trade Agreements – Part 2" (1997) *Trademark World* 28.

<sup>92</sup> For example, the Implementing Regulation (IR) Reg. 2868/95 implementing Council Regulation 40/94 on the CTM, O.J. L303/1, [1995], containing additional and more specific procedural provisions; the Commission Regulation 216/96 laying down the rules of proceedings of the Board of Appeal of the OHIM (Trade Marks and Designs), O.J. L28/11 [1996] O.J. O.H.I.M. 399 and the Fee Regulation, Commission Reg. 2869/95 O.J. L303/33 [1995] O.J. O.H.I.M. 415.

<sup>93</sup> See art. 63 of the CTMR.

<sup>94</sup> Art. 168a(1) of the EC Treaty; art. 49 of the Statutes of the CJEC.

<sup>95</sup> See in general Davies (1998) 79-85.

<sup>96</sup> Davies (1998) 34.

<sup>97</sup> Third Recital of the Regulation. See also art. 1(2) where it is stated that a Community trade mark shall have a unitary character, with effect throughout the Union.

<sup>98</sup> Art. 9(1)(b) of the CTMR, which corresponds to art. 5(1)(b) of the Trademark Directive. See also art. 8(1)(b) and 52(a)(a) of the CTMR which correspond to art. 4(1)(b) of the Directive.



European Union law.<sup>99</sup> Where the marks are identical or similar, but the products are dissimilar, the protection of article 8(5) can be invoked, if the requirements are met.<sup>100</sup> This provision, unlike the corresponding section in the Trademark Directive,<sup>101</sup> which *may* be incorporated into national law, is enforceable throughout the Union. It must be noted that “reputation” in article 8(5) does not have the same meaning as “well known” in Article 6*bis* of the Paris Convention or as the word “famous”, which are interpreted in Germany as to mean 70-80% of the public.<sup>102</sup> To ascertain whether a trade mark has a reputation, the relevant consumers and the specialisation of the market will probably be the most important factors. Reputation does not only relate to quantity; it must be something worthy of protection.<sup>103</sup>

The requirement that the defendant’s use must take unfair advantage of or be detrimental to the distinctive character or repute of the mark, basically requires a showing of a likelihood of dilution, either by blurring or tarnishment.<sup>104</sup>

From the wording of article 8(5) “in relation to goods or services which are not similar to those for which the trade mark is registered...”, it seems clear that this article is only applicable in the case of dissimilar goods. However, the decisions of the CJEC in the cases of *Davidoff v Gofkid* and *Adidas v Fitnessworld*<sup>105</sup> may have an influence on the future interpretation of this phrase in articles 8(5) and 9(1)(c). These decisions imply that these articles will also cover situations where the goods are identical or similar and not

<sup>99</sup> See the discussion in Chapter 5.8.1 “The Interpretation of Article 4(1)(b) and 5(1)(b)” *infra*.

<sup>100</sup> Art. 8(5) of the CTMR corresponds to art. 5(2) of the Trademark Directive, quoted in Chapter 5.5.3 “Dilution Provisions” *supra*. The criteria laid down in the CTM are “not entirely dissimilar” to those in art. 16(3) of TRIPS concerning the requirement of damage to the proprietor. See Chapter 6.3.4.2 “The GATT Agreement on the Trade Related Aspects of Intellectual Property Rights (iii) Dilution Protection in the TRIPS Agreement”. See also Rangel-Ortiz (1997) 28-29.

<sup>101</sup> Art. 5(2) of the Trademark Directive.

<sup>102</sup> Davies (1998) 41-42 and fn 26; Schwartz & Morfesi (1997) 456.

<sup>103</sup> See the discussion of the term “reputation” in Chapter 5.7.2.5 “The Key Concepts of Section 10(3) (iv) Reputation” and Chapter 5.8.2 “The Interpretation of Article 5(2)” *infra*.

<sup>104</sup> Schwartz & Morfesi (1997) 455.

<sup>105</sup> Case C-292/00, *Davidoff & Cie and Zino Davidoff SA v Gofkid Ltd.*, 9 January 2003; Case C-408/01, *Adidas-Salomon A.G., formerly Adidas A.G., Adidas Benelux B.V. v Fitnessworld Trading Ltd.*, 23 October 2003.



only cases where the goods are non-similar, as appears on its face. Morcom sees this as notionally rewriting these provisions.<sup>106</sup>

## 5.7 LAWS OF SELECTED MEMBER STATES OF THE EUROPEAN UNION

### 5.7.1 BENELUX LAW

#### 5.7.1.1 GENERAL

Even before 1 January 1996, when the amendments effected pursuant to the Trademark Directive took effect, protection for trade marks against dilution was granted by the courts in the Benelux countries on the wording of article 13A of the Uniform Benelux Trade Marks Act of 1971.<sup>107</sup> This article provides that:

“[T]he proprietor of a mark may, by virtue of his exclusive rights, oppose:

- 1 any use made of the mark or a similar sign for the goods or services in respect of which the mark is registered, or for similar goods or services;
- 2 any other use, in the course of trade, of the mark or a similar sign made without due cause under circumstances likely to *cause damage to the proprietor of the mark*.<sup>108</sup>

The Benelux Trade Marks Act came into operation on 1 January 1971 and was added as an annex to the Benelux Treaty of Trade Marks.<sup>109</sup> This Act provided Belgium, the Netherlands and Luxembourg with one system of trade-mark law.<sup>110</sup> Before its implementation these countries had different trade-mark laws. All three countries enacted the Benelux Trade Marks Act pursuant to article 1 of the Benelux Treaty of Trade Marks which required them to include this Act in their legislation. They thus did away with their old national trade-mark laws. For the enforcement of this joint Act, a

<sup>106</sup> See the discussion in Chapter 5.8.2 “The Interpretation of Article 5(2)” *infra* and also Morcom C “Extending Protection for Marks Having a Reputation – What is the Effect of the Decision of the European Court of Justice in *Davidoff v Gofkid*?” (2003) 6 *European Intellectual Property Review* 279 at 281.

<sup>107</sup> Vuk (1998) 906-907; Kamperman Sanders (1996 *EIPR*) 523; Casparie-Kerdel (2001) 195.

<sup>108</sup> Emphasis added.

<sup>109</sup> Dated 19 March 1962.

<sup>110</sup> Casparie-Kerdel (2001) 188; Gielen (1992) 262.



supranational court, the Benelux Court of Justice came into being.<sup>111</sup> As the Uniform Benelux Trade Marks Act was implemented into the national laws of these countries, judgments of national courts also apply to the whole Benelux territory, unless otherwise stated. It is important to remember that protection in terms of this Act is only given to registered (or deposited) trade marks<sup>112</sup> and that no exclusive rights can be acquired on the basis of use. The most striking feature of the new infringement provision was its subdivision into two parts, each with its own conditions and requirements.<sup>113</sup> Article 13A(1) covers the situation where an identical or similar mark is used on the same or similar goods. In Article 13A(2) protection is given against “any other use, in the course of trade” of an identical or similar mark. Dilution is covered in both sections. Thus, in the Benelux countries full protection for trade-mark dilution is offered, including any situation where a junior user’s mark calls to mind the senior user’s mark, regardless of whether the consumer will be confused as to the source of origin of the goods.<sup>114</sup> Although the Benelux-system is praised for its early recognition of the dilution principle and the protection of the modern functions of a trade mark, it is at the same time criticised for the way in which dilution was incorporated in the Act as part of the traditional infringement sections.<sup>115</sup>

#### 5.7.1.2 COURT SYSTEM IN THE BENELUX

Most trade-mark cases are heard by District Courts in the Netherlands and by the Tribunal of Commerce in Belgium, which is also a district court. An appeal from a decision of the District Courts can be brought before a (national) Court of Appeal and a final appeal before the Supreme Court in The Hague, Brussels or Luxembourg. The Benelux Court of Justice (BCJ) can hear prejudicial questions on matters of interpretation of the Benelux Trade Marks Act. The district courts and court of appeal may and the

<sup>111</sup> See Davies (1998) 139-200 for an extensive discussion of Benelux law. See also Gielen (1996 *TW*) 20; Vuk (1998) 907.

<sup>112</sup> Davies (1998) 139.

<sup>113</sup> According to Casparie-Kerdel (2001) 188.

<sup>114</sup> Marroletti (1999) 669. This is known as the “classical” theory of dilution: the mark, simply being called to mind, will lose its distinctiveness and its power to signify goods.

<sup>115</sup> Casparie-Kerdel (2001) 193-194.



supreme courts have to put prejudicial interpretation questions to the BCJ. Prejudicial questions on interpretation can also be referred directly or by a national court to the CJEC. The relationship between questions being put to the BCJ and the CJEC is, however, still unclear.<sup>116</sup>

### 5.7.1.3 "LIKELIHOOD OF ASSOCIATION" IN THE BENELUX LAW

The "likelihood of association" criterion was never used in the Uniform Benelux Trade Marks Act, but this concept developed from Article 13A(1) of the Act. The yardstick used by the Benelux countries was whether a mark or sign was "similar" to the mark as registered. This had to be decided on a case-by-case basis in the courts. In the *Monopoly* case,<sup>117</sup> decided by the Dutch Supreme Court, some light was shed on this provision. The trade mark ANTI-MONOPOLY was used for a game, which showed some likeness to the MONOPOLY game, but was totally anti-capitalistic. The court found that the MONOPOLY mark was infringed by the parodic use of the mark ANTI-MONOPOLY. Although there was no risk of confusion as to source, since the two words were the opposite of each other, the simple fact that the one would call to mind the other was enough under the Benelux practice to find the necessary "similarity" between the marks.<sup>118</sup>

The concept of "risk of association" was born in the famous case of *Union v Union Soleure*<sup>119</sup> in which the BCJ had to interpret the phrase "similarity of marks". The court adopted a definition of similarity that was to become "the magic formula in all later cases".<sup>120</sup> The court decided that similarity can be present taking into account the

<sup>116</sup> Davies (1998) 174-176, 196. See Chapter 5.8.2 "The Interpretation of Article 5(2)" *infra* for a discussion of the Case C-337/95, *Parfums Christian Dior v Evora B.V.*, 4 November 1997 [1998] R.P.C. 166 in which a question was referred by the Netherlands Court of Appeal to the CJEC.

<sup>117</sup> *Monopoly/Anti-Monopoly*, Dutch Supreme Court (Hoge Raad), 24 June 1977 [1978] N.J. 83; [1978] B.I.E. 39. See Gielen (1992) 267; Harris (1995 *EIPR*) 601.

<sup>118</sup> Casparie-Kerdel (2001) 188.

<sup>119</sup> *Union/Union Soleure*, Benelux Court of Justice, 20 May 1983 [1984] N.J. 72; [1984] B.I.E. 137. See Davies (1998) 153-154; Gielen (1996 *TW*) 21; Gielen (1992) 266; Harris (1995 *TW*) 13; Harris (1995 *EIPR*) 601; Annand (1996) 155. See also *Regina v Procter & Gamble*, Court of Appeal Brussels, 27 May 1993, I.E.R. 1993, 112 (*The Always/Regina-case*).

<sup>120</sup> Casparie-Kerdel (2001) 188-189.



particular circumstances of a case, for example the distinctive power of the mark, whether the mark and the sign, compared as a whole and in correlation, show such a resemblance phonetically, visually or conceptually that by this resemblance alone *associations* between the sign and the mark arise. It is, however, interesting to note that mere association is not enough, but that other circumstances must also be taken into account, particularly the distinctive power, which relates to the repute of the mark.<sup>121</sup>

Likelihood of association in the Benelux countries, as defined above, will include the following situations:<sup>122</sup> direct confusion or association, indirect confusion, as well as association in the strict sense, where the public makes a subconscious connection or association based on the resemblance of the mark and the sign, but is not confused. According to Gielen<sup>123</sup> the last situation also covers the likelihood of dilution in the case of similar goods or services. The following basic principles are then applied to determine the likelihood of association in a particular case. The mark as registered is compared to the sign as used and sometimes even non-registered elements may be taken into account. The mark and sign are compared as a whole. More attention is, however, paid to similarities than to differences as it is mainly through the similarities that associations are made. Any similarity in visual or phonetic or conceptual respect will then be sufficient for a finding of a risk of association.

The intention of the court was evidently to give trade-mark owners the broadest possible protection. This means protection not only against confusion, but also dilution of the trade mark. It was generally understood that dilution was also a basis for an action regarding the provision governing use of a trade mark on competing goods, through the concept of association.<sup>124</sup>

<sup>121</sup> See Gielen C "A Benelux Perspective" (1998) 3 *European Intellectual Property Review* 110.

<sup>122</sup> See Davies (1998) 155; Gielen (1996 *TW*) 21-22; Casparie-Kerdel (2001) 189 and also the discussion of the *SABEL*-case in Chapter 5.8.1 "The Interpretation of Article 4(1)(b) and 5(1)(b)" *infra*.

<sup>123</sup> Gielen (1996 *TW*) 22.

<sup>124</sup> Casparie-Kerdel (2001) 189.



The following three important conditions, concerning the “concept of association”, were subsequently read into the Act:<sup>125</sup>

1. The degree of distinctiveness is an important factor. The more distinctive the mark, the more likely its ability to evoke associations in the mind of the public.<sup>126</sup>
2. The mark’s reputation is also one of the particular circumstances. A strong reputation is an indication of distinctiveness, which can evoke the required association.
3. For a finding of conceptual similarity, there must also be a degree of visual or auditive resemblance between the two marks.

#### 5.7.1.4 “USE IN RELATION TO GOODS AND SERVICES”

An important phrase in the pre-1996 Benelux Trade Marks Act, which is also to be found in the Trademark Directive, the new version of the Benelux Act and also the South African Trade Marks Act,<sup>127</sup> is “use in relation to goods and services”. This phrase was of much importance in the Benelux countries, as article 13A(1) of the original legislation was applicable in the case of “any use” in relation to identical or similar goods and services and article 13A(2) in the case of “any other use”, meaning any use not in relation to goods and services or in relation to dissimilar goods and services.<sup>128</sup> The conclusion drawn from Benelux case law by Davies<sup>129</sup> is the following: use of a mark or sign will not be considered “use in relation to goods and services” where it is, in the first place, used merely as a trade name (name of a company) or in a slogan and not giving the impression that it is used to distinguish the goods of the company, and secondly, use in, for example, comparative advertising.

<sup>125</sup> Identified by Casparie-Kerdel (2001) 189.

<sup>126</sup> This point was illustrated by the case of *Juicy Fruit*, Benelux Court of Justice, 5 October 1982 [1984] N.J. 71. The owner of the JUICY FRUIT trade mark for chewing gum tried to stop a competitor from using the same mark. He failed, because the distinctiveness of the JUICY FRUIT mark was not such that it would evoke strong associations in the minds of the public.

<sup>127</sup> Discussed in Chapter 6.4.2 “The Dilution Provisions” *infra*.

<sup>128</sup> Davies (1998) 151-152; Casparie-Kerdel (2001) 189.

<sup>129</sup> Davies (1998) 152. The most important case mentioned by her is the *Omnisport* case, [1989] N.J. 300.



### 5.7.1.5 ARTICLE 13A(2) OF THE UNIFORM BENELUX TRADE MARKS ACT

As said in the Introduction above, Benelux trade-mark law was one of the first to give protection to trade marks outside the scope of protection for identical or similar marks or goods. Article 13A(2) makes provision for protection against “any other use, in the course of trade”. This phrase has been interpreted to contemplate use of an identical or similar sign for dissimilar or unconnected goods and also use of a mark or sign for purposes other than to distinguish the goods, thus non-trade-mark use.<sup>130</sup> Use in comparative advertising or the use of a trade name or slogan or use in the media<sup>131</sup> would be found under the last mentioned category. In these cases under article 13A(2) mere similarity of marks is, however, not sufficient and other criteria have to be met.<sup>132</sup> Under Benelux trade-mark law even trade marks that did not possess a certain reputation were also protected. However, if the trade mark had a certain reputation, the court would more easily find that damage was caused to the trade mark by the use of a similar sign on dissimilar goods.<sup>133</sup> Reputation could thus influence the assessment of the likelihood of damage.

Probably the most famous case decided by the BCJ under section 13A(2) is the case of *Claeryn/Klarein*.<sup>134</sup> The court found that the use of the KLAREIN trade mark for all-purpose cleanser diluted the CLAERYN trade mark for gin. It was restated in this case that trade marks did not have to be deemed famous, or have a reputation, to receive protection under this provision in the Benelux Act. The court had the opportunity to define the concept of “damage” in more detail. The two traditional grounds of damage was identified, namely customer confusion and taking advantage of the trade mark’s goodwill and reputation. A third ground was also identified as “the negative influence on the mark’s ability to invoke an inclination to buy amongst the consuming public”. This

<sup>130</sup> Davies (1998) 157; Casparie-Kerdel (2001) 189.

<sup>131</sup> See Casparie-Kerdel (2001) 190 for examples and discussion.

<sup>132</sup> See art. 13A(2). These criteria are used in the course of trade, without due course and likely to cause damages to the trade-mark owner.

<sup>133</sup> Kamperman Sanders (1996 *EIPR*) 523; Gielen (1992) 266.

<sup>134</sup> *Colgate-Palmolive B.V. v NV Koninklijke Distilleerderijen Erven Lucas Bols*, BCJ 1 March 1975 [1975] N.J. 472; Vuk (1998) fn 266; Kamperman Sanders (1996 *EIPR*) 3; Casparie-Kerdel (2001) 189.



could occur in two instances: where the mark's exclusivity and uniqueness are impaired so that it is no longer capable of giving immediate association with the goods and where inappropriate associations were evoked by the goods for which the infringing sign is used.<sup>135</sup> The capacity to stimulate people to buy the product to which the mark is attached, referred to by the court, is naturally the advertising function of a trade mark. In the *Claeryn* case negative associations were definitely evoked by the use of the KLAREIN mark. The court said that it would not be amusing drinking a glass of CLAERYN Dutch gin, while thinking of a cleaning agent! The court thus used the association criterion to protect a similar sounding mark. (The names were identically pronounced in Dutch.) The phrase "due cause" was also interpreted by the court. "Due cause" could only be assumed if there was such a necessity on the part of the alleged infringer to use the mark, that he could not reasonably be required to abstain from its use.<sup>136</sup> In this case, and other cases decided under this provision, the risk of confusion played no role.<sup>137</sup>

In conclusion it can be seen that Benelux law offered a broad infringement criterion, which is based on a modern approach to the functioning of trade marks. The Benelux nations have essentially accepted that the functions of a trade mark are not limited to that of an indicator of the source or origin or as an indication as to quality, but that a trade mark can also acquire its own goodwill by means of publicity.<sup>138</sup> This means that the trade mark will have a goodwill independent both of the source or origin of the goods and their quality. The mark can thus continually be kept in the minds of the public.

The following components of the dilution principle can be identified in Benelux law.<sup>139</sup> Although not mentioned in the statutory law, confusion is not required. This can be deduced from case law and academic writings. Blurring and tarnishment are not identified as such, but can be inferred from the description of what constitutes "damage".

<sup>135</sup> These wording has a certain analogy to the concepts of blurring and tarnishment, used in the United States dilution law, discussed in Chapter 4 *supra*. This was also noted by Casparie-Kerdel (2001) 190.

<sup>136</sup> See Casparie-Kerdel (2001) 190.

<sup>137</sup> See Gielen (1992) 267 for the *Claeryn/Klarein* case and other examples.

<sup>138</sup> Harris (1995 *TW*) 13; Harris (1995 *EIPR*) 601.

<sup>139</sup> Casparie-Kerdel (2001) 190.



There is no reference to the fact that marks must be famous to qualify for protection. Distinctiveness is thought to be an important factor. There is a limitation to protection built into the concept of "due cause". Casparie-Kerdel strongly feels that although the characteristics of the US dilution doctrine can be traced in Benelux law, the way in which the doctrine appears in the law is completely different. She also feels that it can even be concluded that there "is no such thing as a dilution doctrine under Benelux law", as it is not defined as such.<sup>140</sup> One main point of criticism against the way in which the dilution concept is used in Benelux law, is that it is not a separate action, but submerged in the general trade-mark infringement section. The result is that it has never had the chance to develop in its own right.

#### 5.7.1.6 INFLUENCE OF THE TRADEMARK DIRECTIVE ON BENELUX LAW

As explained above the Benelux Trade Marks Act, considered to be one of the most modern trade-mark laws in the world, to a great extent inspired the Trademark Directive.<sup>141</sup> For this reason the Trademark Directive did not really alter the Benelux Trade Marks Act.<sup>142</sup> In the *Always/Regina* case<sup>143</sup> the Brussels Court of Appeal confirmed that in cases involving similar products, the association criterion remains part of the Benelux law. In this case the plaintiff was the proprietor of a number of registered trade marks for its distinctive coloured packaging for sanitary towels. The defendant then marketed its products in packaging that was considered to be similar to that of the plaintiff. The plaintiff instituted action on the basis of its reputation and the fact that there was a risk of association. The defendant argued that in the light of the Directive there must now be confusion as to origin before trade-mark infringement could be found. The Brussels Court of Appeal, however, rejected this proposition. Infringement was found on the basis of a likelihood of association, because of the overall similarity of the products and despite the fact that the word marks were completely different. The reasons

<sup>140</sup> See Casparie-Kerdel (2001) 190 for a more detailed discussion.

<sup>141</sup> Davies (1998) 139; Gielen (1996 *TW*) 20; Gielen (1992) 264; Harris (1995 *EIPR*) 601.

<sup>142</sup> Vuk (1998) 907.

<sup>143</sup> *Regina v Procter & Gamble*, Court of Appeal Brussels 27 May 1993, I.E.R. 1993, 112. See Harris (1995 *EIPR*) 602 for a short discussion of the case. See also Annand (1996) 156.



given were, firstly, that it was stated in the Directive that the likelihood of confusion includes the likelihood of association; and, secondly, that the Benelux nations' governments did not see it as necessary to include "likelihood of confusion" in the amendments affected to incorporate the Directive into national laws.

Even after the *Puma v SABEL* case,<sup>144</sup> on the interpretation of likelihood of association by the CJEC, it is unlikely that the Benelux practice will change. If the *Monopoly/Anti-Monopoly* case<sup>145</sup> were to be decided under the broad concept of confusion formulated in the *SABEL* case, it would have resulted in the same decision, according to Gielen.<sup>146</sup>

In cases concerning dissimilar products, some changes to the law were, however, needed. The most important change is that it will now be necessary in these cases to show a sufficient level of reputation,<sup>147</sup> although, according to Gielen, reputation is not a very important criterion.<sup>148</sup> A description of the type of damage protected against, namely uses that damage the distinctive character or the repute of the trade mark must also be added to this provision.<sup>149</sup> To prove "reputation" the owner must show that his trade mark is genuinely used in a normal commercial way and that it has become known within interested circles. That means that the mark must have a reputation among a relevant part of the public, which means some 30 to 50 per cent.<sup>150</sup> It is accepted that this is a lower standard than that required by article 6*bis* of the Paris Convention, which refers to "well known". Reputation would only mean "known".

<sup>144</sup> Case C-251/95, *SABEL B.V. v Puma A.G., Rudolf Dassler Sport* [1997] E.C.R. I-6191; [1998] E.T.M.R. 1. (Judgment of 11 November 1997), discussed in Chapter 5.8 "Judgments of the Court of Justice of the European Communities (CJEC)" *infra*.

<sup>145</sup> *Monopoly/Anti-Monopoly*, Dutch Supreme Court (Hoge Raad), 24 June 1977 [1978] N.J. 83; [1978] B.I.E. 39. See Chapter 5.7.1.3 "Likelihood of Association" in the Benelux Law" *supra*.

<sup>146</sup> Gielen (1998) 110.

<sup>147</sup> Kamperman Sanders A "Some Frequently Asked Questions about the 1994 UK Trade Marks Act" (1995) 2 *European Intellectual Property Review* 72; Prescott P "Has the Benelux Trade Mark Law Been Written into the Directive?" (1997) 3 *European Intellectual Property Review* 99 at 101.

<sup>148</sup> Gielen (1992) 267. See also the discussion of the term "reputation" in Chapter 5.7.2.5 "The Key Concepts of Section 10(3) (iv) Reputation" *infra*.

<sup>149</sup> Kamperman Sanders (1996 *EIPR*) 4; Kamperman Sanders (1996 *EIPR*) 523. Art. 13A(1)(c) of the current Benelux statute states that "...the trademark holder may oppose against: (c) any use in the course of trade, where the mark or similar sign has a reputation in the Benelux, in relation to goods, dissimilar to those for which the mark is registered, if this use can lead to the unfair taking of advantage of, or detriment to the distinctive character or repute of the mark."

<sup>150</sup> Davies (1998) 158 and fn 58. Gielen (1992) 267 is of opinion that even 30 to 40% will be enough.



### 5.7.1.7 THE NEW BENELUX TRADE MARKS ACT<sup>151</sup>

The new Act was promulgated in 1992 pursuant to the Trademark Directive and became effective on 1 January 1996. Article 13A(1)(c) provides that the proprietor of a mark may prohibit any use of a mark or similar sign on non-similar goods, in the course of trade without due cause, where the senior mark has a reputation in the Benelux and such use takes unfair advantage of or is detrimental to the distinctive character or repute of the mark. Reputation need not be established among the public at large. It must only be shown that the mark is used in a normal commercial way and has become known within interested circles. It will be sufficient to find that the mark has a reputation in the relevant concerned sector.<sup>152</sup> The courts are very reluctant to find due cause for an unauthorised use. Due cause will only be found where the mark is especially suited for the goods for which it is used or where the proprietor had in the past used the mark for similar goods.<sup>153</sup>

Article 12 determines that a mark must be registered to receive any protection under the Act. The remedies provided for are injunctive relief and damages. Upon a showing of bad faith an accounting and transfer of profits and seizure of any related movable property could be requested.<sup>154</sup>

## 5.7.2 THE UNITED KINGDOM

### 5.7.2.1 GENERAL

Under the common law the action for passing-off, which is grounded in deceit or at least some sort of confusion, gives protection to trade marks against infringing uses. Nevertheless, in some of these passing-off cases "dilution-like arguments" are used. One

<sup>151</sup> See Schwartz & Morfesi (1997) 450-452.

<sup>152</sup> Schwartz & Morfesi (1997) 450.

<sup>153</sup> Schwartz & Morfesi (1997) 451.

<sup>154</sup> Schwartz & Morfesi (1997) 451.



of the best known of these cases, mentioned by Welkowitz,<sup>155</sup> is *Taittinger v Allbev*.<sup>156</sup> In this case the producers of French champagne from the Champagne district sued the maker of a sparkling non-alcoholic drink called "Elderflower Champagne". They relied on the common-law action of passing off. All three judges referred to the dilution or blurring or erosion of the exclusive connotation of the term "champagne" with wine from the French Champagne district as the essence of the claim. They referred to the threat to the plaintiffs' goodwill and the loss of the exclusive reputation they would suffer. Welkowitz noted that "the language is that of dilution, not traditional confusion".<sup>157</sup>

The first apparent statutory protection against dilution in the United Kingdom was in terms of the Trade Marks Act of 1994, which came into force on 31 October 1994.<sup>158</sup> This Act was introduced in the United Kingdom to comply with its international obligations,<sup>159</sup> but also to meet the inadequacies of the 1938 Act to cope with changes in trading practices.<sup>160</sup> The Act implemented the Trademark Directive and also incorporated the Community Trade Mark Regulation's unitary system of registration of trade marks within Europe. The Madrid Protocol system was also incorporated and the Act also gave effect to the United Kingdom's obligations under the Paris Convention and the TRIPS Agreement of 1993.<sup>161</sup>

<sup>155</sup> Welkowitz (2000) 71-73.

<sup>156</sup> *Taittinger S.A. v Allbev, Ltd.*, [1994] 4 All E.R. 75, [1993] F.S.R. 641 (C.A. (Civil) 1993).

<sup>157</sup> Welkowitz (2000) 72. The judge had already concluded that traditional confusion exists, but continued with a dilution-like discussion to demonstrate potential damage to the goodwill of the trade mark. The rationale of the *Taittinger* case, the concept of damage to goodwill as sufficient proof of confusion, was however not followed in *Harrods, Ltd. v Harrodian School Ltd.*, [1996] R.P.C. 697 (CA), where the well-known department store Harrods sued a private school called the Harrodian School. The court denied relief. See Welkowitz (2000) 72-73.

<sup>158</sup> S 10. The common-law action for "passing off" still exists and provides protection for trade marks that are not registered under the 1994 Act. See Welkowitz (2000) 97-99.

<sup>159</sup> Especially the European Directive. Member States were required to comply with the Directive not later than 28 December 1991. This date was postponed (in terms of art. 16(2) of the Directive) to 31 December 1992. The United Kingdom did not comply with either of these dates, but the Directive provided no sanctions for failure to comply with these dates. See Welkowitz (2000) 73 and fn 46.

<sup>160</sup> Briggs N "Infringement under Section 10(2) and 10(3) of the 1994 Trade Marks Act in Perspective" (2000) 9 *European Intellectual Property Review* 429. See also the Mathys Committee "Report of the Mathys Committee on British Trade Mark Law and Practice" (1974) Cmnd 5601.

<sup>161</sup> Annand (1996) 142. For a general discussion see Davies (1998) 563. The TRIPS agreement is dealt with in Chapter 6.3.4.2 "The GATT Agreement on the Trade Related Aspects of Intellectual Property Rights" *infra*.



The section relevant to infringement reads as follows:

- “10(1) A person infringes a registered trade mark if he uses in the course of trade a sign which is identical with the trade mark in relation to goods or services which are identical with those for which it is registered.
- (2) A person infringes a trade mark if he uses in the course of trade a sign where because –
- (a) the sign is identical with the trade mark and is used in relation to goods or services similar to those for which the trade mark is registered, or
  - (b) the sign is similar to the trade mark and is used in relation to goods or services identical with or similar to those for which the trade mark is registered, there exists a likelihood of confusion on the part of the public, *which includes the likelihood of association with the trade mark.*
- (3) A person infringes a registered trade mark if he uses in the course of trade a sign which –
- (a) is identical with or similar to the trade mark, and
  - (b) is used in relation to *goods or services which are not similar* to those for which the trade mark is registered,
- where the trade mark has a reputation in the United Kingdom and the use of the sign, being without due cause, takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark.”*<sup>162</sup>

Thus, the optional provision in the Trademark Directive, apparently giving dilution protection,<sup>163</sup> was also incorporated into the UK Act as a mandatory provision. The language of these provisions was taken almost verbatim from the Directive,<sup>164</sup> with the result that some key language is both ambiguous and unfamiliar to English law.<sup>165</sup> Some

<sup>162</sup> Emphasis added. Compare this with s 4 of the 1938-Act where it had to be shown that the infringing mark was “likely to deceive or cause confusion”.

<sup>163</sup> Baloch TA “Confused About Dilution? *DaimlerChrysler v Alavi* (Merc Case)” (2001) 9 *European Intellectual Property Review* 427 at 433 suggests that s 10(3) can support dilution. See also Martino (1996) 86. Neuberger J in the case of *Premier Brands v Typhoon Europe Ltd*, High Court of Justice, Chancery Division, 21 January 2000 (2000) 23(5) IPD; [2000] F.S.R. 767 at 787 says: “While dilution is a useful concept to bear in mind, it does not necessarily follow that every case of infringement under section 10(3) will necessarily involve dilution, nor does it follow that the proprietor of a mark will necessarily succeed in establishing infringement under section 10(3) in every case where he establishes dilution.”

<sup>164</sup> Martino (1996) 86 quotes Lord Strathclyde, who was responsible for getting the Bill through the House of Lords, as saying “we must stick with the directive’s words and not amend them, since doing so changes their meaning”.

<sup>165</sup> Welkowitz (2000) 74. Martino (1996) 86-120 discusses this section in a Chapter titled “Mirror, Mirror on the Wall, What’s the Meaning of It All?”. His perspective is that, looking especially at the language of s 10(3), there are more questions than answers. He says at 87: “Neither the theory of trademark dilution, nor the language in which it is expressed is familiar to English law.” Michaels A “Confusion



writers hold the opinion that the inclusion of the phrase “likelihood of association” in section 10(2)(b) would also give dilution protection to trade marks in the case of identical or similar goods in the United Kingdom. Their opinion was based on the fact that the Trademark Directive, which the UK Act followed, was based, to a certain extent, on the Benelux Trademark Law, as explained above.<sup>166</sup> This law gives a very wide interpretation to the phrase “likelihood of association” and protects a trade mark “whenever the trade mark is called to mind”.<sup>167</sup> As will be seen, this wide interpretation was not followed by the British courts.<sup>168</sup>

### 5.7.2.2 THE PROPOSED INTERPRETATION OF SECTIONS 10(2) &(3)

With regard to the possible interpretation of section 10(2)(b) and 10(3), Kamperman Sanders makes some interesting remarks in an article on the United Kingdom Trade Marks Act, published in 1995.<sup>169</sup> He clearly indicates the fallacy of interpreting “the likelihood of association” as a direct replacement of confusion, as this will mean that the two concepts can be used interchangeably. The result will be that the scope of section 10(2) will be limited to the source doctrine. Section 10(3), where the protection of non-similar products is addressed, does not require confusion, thus the source doctrine does not apply. This section undoubtedly recognises the advertising function of trade marks. The justification for this protection depends on the value of the mark itself.<sup>170</sup> Kamperman Sanders then argues that if protection can be granted to non-similar goods in the absence of confusion as to origin, it must also be possible in the case of similar

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in and about Section 5(3) and 10(3) of the Trade Marks Act 1994” (2000) *European Intellectual Property Review* 335 at 336 also rates the wording of these articles as “obscure” and the true scope of protection as “uncertain”.

<sup>166</sup> Harris (1995 *EIPR*) 601; Kamperman Sanders (1995) 67. See also Martino (1996) 89-90 who stresses that decisions of foreign courts are not binding on the English courts. He further explains that the courts must construe the words of the Act itself and cannot rely on judicial statements. Decisions of Irish and Scottish courts will carry weight and those of other common-law jurisdictions might be “useful”. After that, decisions from the CJEC and the OHIM might play a role. The Benelux example is therefore not likely to be followed by the English courts.

<sup>167</sup> Vuk (1998) 909; Gielen (1996 *TW*) 22-23; Harris (1995 *TW*) 13.

<sup>168</sup> See Chapter 5.7.2.3 “Cases on Section 10(2)” *infra*.

<sup>169</sup> Kamperman Sanders (1995) 69-74.

<sup>170</sup> Carty (1997) 684.



goods.<sup>171</sup> The association concept in section 10(2) leads, therefore, to an expansion of the confusion concept, so that this section incorporates both the source and dilution doctrines. This proposition is in line with the ruling in the *Always/Regina* case<sup>172</sup> in the Benelux and also the statements in the Council Minutes regarding the acceptance of the Trademark Directive.<sup>173</sup>

Martino suggests that "association" is closely related to, but falls short of confusion. In other words "likelihood of association" functions as a "less rigorous" likelihood of confusion standard. He also recognises that association means a mental link between the two marks and explains that if the junior mark calls to mind the senior mark and the goods are the same or similar, "confusion is but a short step away".<sup>174</sup> He also refers to the Benelux interpretation and especially the *Anti-Monopoly* case.<sup>175</sup>

The protection given in section 10(3) is predominantly to protect the private interests of the trade-mark owner, in contrast with section 10(2), where the public interest in not being misled, still plays an important role. The nature of the interests protected in section 10(3) has also led to the criticism of many commentators that the dilution provisions confer an unjustified monopoly on the trade-mark owner.<sup>176</sup> For this reason, additional grounds were inserted for the enforcement of this provision.<sup>177</sup> It must be noted that the key phrases used in section 10(3) all require judicial interpretation.<sup>178</sup>

<sup>171</sup> Kamperman Sanders (1995) 70.

<sup>172</sup> *Regina v Procter & Gamble*, Court of Appeal Brussels 27 May 1993, I.E.R. 1993, 112. See the discussion in Chapter 5.7.1.6 "Influence of the Trademark Directive on Benelux Law" *supra*.

<sup>173</sup> As to these statements, see the discussion in Chapter 5.5.5 "Meaning of 'Likelihood of Association'" *supra* and also the arguments in the *Wagamama* judgment in Chapter 5.7.2.3 "Cases on Section 10(2)" *infra*.

<sup>174</sup> Martino (1996) 99-100.

<sup>175</sup> *Monopoly/Anti-Monopoly*, Dutch Supreme Court (Hoge Raad), 24 June 1977 [1978] N.J. 83; [1978] B.I.E. 39. See the discussion in Chapter 5.7.1.3 "'Likelihood of Association' in the Benelux Law" *supra*.

<sup>176</sup> See the dilution debate discussed in Chapter 3.5.5.1 "The Fear of Monopoly" *supra*.

<sup>177</sup> Kamperman Sanders (1995) 70.

<sup>178</sup> Carty (1997) 685.



In contrast with the interpretation proposed, the United Kingdom courts followed a rather conservative approach as will be seen from the discussion of cases in the next two sections.

### 5.7.2.3 CASES ON SECTION 10(2)

A few important issues arise from section 10(2), namely the interpretation of “likelihood of association”, the test for “likelihood of confusion” and the definition of “similar”.

When the first English case in which the phrase “likelihood of association” in section 10(2)(b) was to be interpreted, the *Wagamama* case,<sup>179</sup> came to court, there were great expectations that the “long awaited liberalisation of the English law” would now take place and that the court would recognise the wider functionality of trade marks as had occurred under Benelux law.<sup>180</sup> The Chancery Division, however, decided that the statute should not be construed expansively. Thus, this phrase does not extend trade-mark protection to uses that do not result in confusion as to product origin. This provision in the United Kingdom, contrary to the position in the Benelux law, does therefore not provide dilution protection.<sup>181</sup>

At first sight the facts in the *Wagamama* case look quite like a classic infringement suit. A Japanese restaurant chain, with the name WAGAMAMA, opened a restaurant in 1992 in England. The trade mark was registered in the class for restaurant services. This restaurant was extremely successful and built up a very good reputation. Then in 1995 an American restaurant, serving Indian food, also opened in England. They used the trade name RAJAMAMA. The owner of the WAGAMAMA trade mark instituted action for

<sup>179</sup> *Wagamama Ltd v City Centre Restaurants plc* [1995] F.S.R. 713; [1996] E.T.M.R. 23. Vuk (1998) 909-912; Davies (1998) 579; Harris (1995 *TW*) 12-15; Kamperman Sanders (1996 *EIPR*) 3-5; Kamperman Sanders (1996 *EIPR*) 521-525; Harris (1995 *EIPR*) 601-603; Prescott P “Think Before You Waga Finger” (1996) 6 *European Intellectual Property Review* 317-321. It is interesting to note that Paul Harris conducted the case for the plaintiff and that evidence for the plaintiff was also submitted by Professor Charles Gielen, Professor of Law at Groningen University in the Netherlands, who is also a well-known trade-mark practitioner, and who was involved in a number of leading Benelux cases.

<sup>180</sup> Harris (1995 *EIPR*) 601; but see the contrasting opinion of Prescott (1996) 317.

<sup>181</sup> See Vuk (1998) 906; Marroletti (1999) 671-672; Welkowitz (2000) 78.



trade-mark infringement. In response the owners of RAJAMAMA changed the name to RAJA MAMA'S, but the plaintiff claimed that both marks were an infringement of its trade mark and amounted to passing off.

The plaintiff gained evidence from a telephone survey that the first reaction of a considerable amount of people on hearing the name RAJAMAMA was to associate it with WAGAMAMA. There was also evidence of confusion as to origin.<sup>182</sup> Counsel for WAGAMAMA put forward the following arguments. Firstly, aside from classic infringement, protection is also offered in the 1994 Trade Marks Act against the mere association between the trade marks. They based this argument on the wording of section 10(2)(b) which gives protection where the goods are similar to those for which the trade mark is registered and there exists a likelihood of confusion, *which includes the likelihood of association with the trade mark*. They thus argued that there could be infringement in any case where the registered trade mark is called to mind by the public, regardless of whether the customer was confused as to source of origin. This would entail an expansion of the origin-based confusion rationale to a non-confusion-based action, in line with modern trade-mark functions. Mere association between the two marks can in this way be prevented. In this regard, they referred to the Benelux trade-mark law<sup>183</sup> where, as already explained, non-origin association had already for some years been accepted as a form of trade-mark infringement.

Secondly, they referred to the "Statements for Entry in the Minutes of the Council Meeting" in support of their case. Their third contention was that it was common knowledge amongst European trade-mark practitioners that the words "likelihood of association" refer to the Benelux interpretation. Fourthly, they argued that, as the Directive aimed at trade-mark harmony between the different Member States, the United

<sup>182</sup> Harris (1995 *TW*) 13; Harris (1995 *EIPR*) 602.

<sup>183</sup> As set out above, s 10 of the UK Trade Marks Act is almost identical to the wording of art. 5 in the Trademark Directive, which accepted the "likelihood of association" concept from the Uniform Benelux Trademark Act. See also Kamperman Sanders (1996 *EIPR*) 3.



Kingdom should also follow the Benelux pattern.<sup>184</sup>

The Court firstly mentioned that under the 1938 Trademarks Act the question to be answered was whether the mark complained of was confusingly similar to the registered mark. The confusion that was looked for was confusion as to source of origin. Thus, if it appears that there are sufficient similarities between the registered trade mark and the infringing trade mark, so as to give the impression to the public that the goods emanate from the same source, they are confused and the court will find that there was infringement. So, if there is an association made between the two marks, this association must also lead to confusion as to the source of origin before there can be trade-mark infringement. The type of infringement described here is known as classic infringement. This classic infringement by confusion as to the source of origin of goods and services can also constitute a cause of action under section 10 of the 1994 United Kingdom Trade Marks Act.

The court noted that there are two possible constructions of section 10(2). Firstly, it can be limited to classic infringement, which will include association as to origin or secondly, it can also cover non-origin association. The second construction is naturally the one used by the Benelux countries. The court, comprising Justice Laddie, chose the first interpretation and came to the conclusion that trade-mark rights cannot be extended to situations where a likelihood of confusion was not present.<sup>185</sup> The court could not find any reason why the Benelux view should be followed.<sup>186</sup>

Kamperman Sanders cannot find fault with the judge's rejection of the practice of tracing the legislative intent from the words used in the provision. He, however, is of the opinion that the intent of the legislature can be ascertained by looking at the logical internal structure of section 10.<sup>187</sup> He then goes on, first to look at the wording of section 10(3),

<sup>184</sup> Harris (1995 *TW*) 13; Harris (1995 *EIPR*) 601.

<sup>185</sup> Prescott (1996) 317 agrees with this. He says that as the statute speaks of "confusion....which includes the likelihood of association...", it must be "that sort of association which involves confusion".

<sup>186</sup> See also Welkowitz (2000) 78-79.

<sup>187</sup> Kamperman Sanders (1996 *EIPR*) 4-5; Kamperman Sanders (1996 *EIPR*) 521, 523-4.



from which it is clear that confusion plays no role, but that it must be proved instead that the trade mark in question has a reputation. It is clear in this subsection that the legislature has the non-origin dilution rationale in mind. He then draws the conclusion, which he sees as logical, that this expansion must also be true for similar goods, where the proximity of the products increases the harmful effect to the unique associative strength of the mark.<sup>188</sup> The drafting of this section thus emphasises this natural progression, where the protection afforded to trade marks is described from the minimum to the maximum extent. Prescott,<sup>189</sup> in contrast, sees article 5(3) of the Directive and thus section 10(3), as a *sui generis* provision. Thus, it cannot throw any light on the interpretation of section 10(2). He also shows that to succeed under section 10(3) the mark needs to have a reputation and the test also requires unfair advantage or detriment. Neither of these requirements is to be found in section 10(2).<sup>190</sup> In his response to Prescott, Kamperman Sanders specifically shows that there is nothing in the Directive itself, nor in the preamble, nor in the working papers, nor in the Council Minutes to support these statements.<sup>191</sup>

The judge in *Wagamama* also felt that the intention to expand the confusion criterion to a much wider non-confusion-based rationale was not made sufficiently clear in the (preamble to the) Trademark Directive. In relation to the argument that it is apparent from the Statements that the European Commission chose the Benelux interpretation, Justice Laddie could, on the evidence provided, not conclusively find that the statements had been incorporated into the Minutes. The European Commission was also unable to

<sup>188</sup> Prescott (1996) 321 believes that s 10(3) was not extended to similar goods because it was not thought to be necessary to do so. He says that in cases where the registered mark has a reputation, the goods are similar and if the defendant's mark is close enough to the plaintiff's to cause detriment or to take an unfair advantage, there will be confusion of origin or at least the likelihood of confusion. Thus, there will be infringement under s 10(2) and no need to expand s 10(3). See also Prescott (1997) 101-102.

<sup>189</sup> Prescott (1996) 318. Prescott wrote this whole article as a reply to the one of Kamperman Sanders in (1996 *EIPR*) 3-5. Prescott came with a rather cutting personal attack on Kamperman Sanders. He writes at 317: "A person may do a valuable service, not by being right, but by being wrong. Kamperman Sanders' article is particularly valuable because not only does he embrace a series of propositions, every one of which is wrong, but does so with great clarity. This is a combination which is rare, and very instructive."

<sup>190</sup> Prescott (1996) 319. Prescott (1997) 101 again says that these two subsections "are so mutually different that the one is hardly any guide to the interpretation of the other".

<sup>191</sup> Kamperman Sanders (1996 *EIPR*) 523-524.



assist the judge in this regard. Relying on a number of CJEC cases, the judge concluded that the Council Minutes were not available as evidence on the ground that they were confidential. This was in spite of evidence that the Minutes were widely known.<sup>192</sup> Prescott supports the finding of Justice Laddie. He states that the primary document is the text of the legislation, here the Directive. If ambiguous, recourse can be had to secondary aids, such as the Council Minutes, but these must be freely accessible, which the Minutes were not at this stage.<sup>193</sup> Although these Council Minutes were at the outset privileged, they were eventually published by OHIM.<sup>194</sup>

The third argument of Counsel of the plaintiff, that it was common knowledge that the words "likelihood of association" refer to the Benelux interpretation, was briefly dealt with by the court, declaring that it would be "wrong and dangerous to rely on Chinese whispers". With regard to the final argument, the court took notice of the decision in the *Always/Regina*-case by a Benelux court, where it was concluded that the Directive did not affect their law. He, however, found that there is not enough reason to follow that decision just because that court expressed its view first.<sup>195</sup>

The Court was moreover afraid that any extension of trade-mark rights to situations where no confusion was present, could lead to the creation of a new kind of monopoly in a trade mark, that could be likened to a quasi-copyright with no fixed duration. Kamperman Sanders criticises this opinion of the court.<sup>196</sup> Firstly, he states that the judge confused the economic life span of a trade mark with that of an author and his heirs and secondly, this argument disregards the fact that trade marks need continual investment and management to stay in competition. Furthermore the application of the association

<sup>192</sup> See Harris (1995 *TW*) 13; Kamperman Sanders (1996 *EIPR*) 3; Kamperman Sanders (1996 *EIPR*) 525; Harris (1995 *EIPR*) 602-603. See also Chapter 5.5.5 "Meaning of 'Likelihood of Association'" *supra*. Prescott (1996) 318 agrees with the judge that the Council Minutes cannot be used. He refers to the "curious device of the leaking of Council Minutes" which he calls "a rather unorthodox method of legislative fiat".

<sup>193</sup> Prescott (1997) 100.

<sup>194</sup> [1996] O.J. O.H.I.M. 607.

<sup>195</sup> Harris (1995 *TW*) 13; Harris (1995 *EIPR*) 603. See *Regina v Procter & Gamble*, Court of Appeal Brussels 27 May 1993, IER 1993, 112, discussed in Chapter 5.7.1.6 "Influence of the Trademark Directive on Benelux Law" *supra*.

<sup>196</sup> Kamperman Sanders (1996 *EIPR*) 4.



criterion in a specific case does not automatically secure victory for the trade-mark proprietor. Other factors, such as the similarity of the goods and reputation of the mark, still have to be taken into account. Prescott supports Justice Laddie's position. He feels that valid monopolies can only be derived from the "will of the legislators, *clearly expressed*", which is not so in the case of section 10(2).<sup>197</sup> He emphasises the burden on companies in selecting a mark, which is not only non-confusing, but is also without any associations with an existing mark.

With this judgment the court also rejected any notion that a trade mark can serve any other function than that of an indicator of the source of origin. In this regard the judge also referred with approval to the opinion of the Advocate General in the *Hag II* case,<sup>198</sup> where it was stated that the primary function of a trade mark was as an indicator of the origin of the goods. That might indeed be the primary function, but does not mean that it is necessarily the only function of a trade mark.<sup>199</sup> The judge, in spite of the words "in particular" in the tenth recital to the Trademark Directive concerning the function of a trade mark, also used this in support of his contention that a trade mark only has an origin function.

The judge, then proceeded to consider the facts along the traditional lines of "classic infringement" and found that there had indeed been a substantial likelihood of confusion in the minds of the public in view of the similarity between the marks WAGAMAMA and RAJAMAMA. He therefore found that there was trade-mark infringement and also passing off.

Although the *Wagamama* case was correctly decided in the sense that protection was given to the WAGAMAMA trade mark, much criticism has been levelled against the way in which the court handled the "likelihood of association" concept.<sup>200</sup> This decision

<sup>197</sup> Prescott (1996) 317-318. He states that if the legislators wanted to introduce a monopoly, they should have drafted the section as "confusion on the part of the public *or* the likelihood of association".

<sup>198</sup> *SA CNL Sucal N.V. v Hag GF A.G.* [1990] 3 C.M.L.R. 571.

<sup>199</sup> See also Kamperman Sanders (1996 *EIPR*) 4.

<sup>200</sup> Vuk (1998) 926-927; Kamperman Sanders (1996 *EIPR*) 3 who titled his article on the case "Back to the Dark Ages of Trade Mark Law". Kamperman Sanders (1996 *EIPR*) 521.



limited the scope of the 1994 United Kingdom Act and put it back within the frame of the traditional origin-based confusion rationale as under the 1938 Act.<sup>201</sup> It furthermore frustrates the aim of the Trademark Directive to approximate the laws of the Member States.<sup>202</sup>

In *British Sugar plc v James Robertson & Sons Ltd.*,<sup>203</sup> often referred to as the *Treat* case, Justice Jacob formulated a test for the “likelihood of confusion”. The plaintiff was the owner of the trade mark TREAT for dessert sauces and syrups in class 30 and used its mark on SILVER SPOON TREAT, a sweet ice-cream syrup. The defendant then started to use ROBERTSON’S TOFFEE TREAT for a sweet spread in its range of jams and preserves, which would fall in class 29. The court decided that a toffee spread was not similar to a dessert sauce or syrup even though the spread was occasionally used as such.

Justice Jacob set out a three-part test for assessing infringement under section 10(2):

1. compare the registered mark with the sign;
2. determine whether the goods or services are identical or similar; and
3. determine whether there is a likelihood of confusion on the part of the public, including a likelihood of association.

This was an objective and very stringent test.<sup>204</sup> He intended the three parts to this test to be separate and distinct. To determine the similarity of the goods, Justice Jacob set out the following factors: the respective uses of the respective goods or services; the respective users of the respective goods or services; the respective physical nature of the goods or acts of service; the respective trade channels through which the goods or services reach the market; in the case of self-serve consumer items, where in practice they are respectively found in supermarkets, in particular whether they are found on the

<sup>201</sup> Harris (1995 *EIPR*) 601, 603.

<sup>202</sup> Kamperman Sanders (1996 *EIPR*) 5.

<sup>203</sup> *British Sugar plc v James Robertson & Sons Ltd.*, [1996] R.P.C. 281.

<sup>204</sup> See Montagnon R “‘Strong’ Marks Make More Goods ‘Similar’” (1998) 11 *European Intellectual Property Review* 401 at 402.



same or different shelves and the extent to which the respective goods compete.<sup>205</sup> The court reasoned that if the question of the likelihood of confusion had to be addressed in order to decide whether goods or services were similar, there would be no purpose in requiring such similarity. The court concluded that the goods of the two companies were not similar and therefore there was no infringement.<sup>206</sup> This judgment is viewed as a “very strict analysis of whether goods were similar”.<sup>207</sup>

Justice Jacob also applied the same criteria in the case of *Baywatch*.<sup>208</sup> The first cause of action in this case was section 10(2). Justice Jacob stated that there are two questions to be answered in terms of section 10(2). The first question is whether there is similarity between the sign and registered trade mark and whether the goods on which the sign is used are similar to that for which the trade mark is registered; and, if so, the second question will be “is there a likelihood of confusion”?<sup>209</sup> He thus found it important to separate confusion from similarity. When applied to the BAYWATCH scenario, the court concluded that the series BAYWATCH and BABEWATCH were not goods of a similar nature<sup>210</sup> and therefore the second question regarding the likelihood of confusion did not arise. The court also made it clear that there must be confusion as to source of origin and not just a likelihood of association.

<sup>205</sup> Essentially the same factors were set out by the CJEC in *Canon*, discussed in Chapter 5.8.1 “The Interpretation of Articles 4(1)(b) and 5(1)(b)” *infra*, in assessing the similarity of goods. See Casey S “Infringement Under the UK Trade Marks Act 1994 Part 1” (May 2000) *Trademark World* 19 at 25.

<sup>206</sup> Similarity of goods was a question wholly independent of the question of the similarity of the mark and sign. Similarity of goods was also a separate issue and must be established before the likelihood of confusion can be assessed. See Briggs (2000) 429.

<sup>207</sup> Briggs (2000) 430.

<sup>208</sup> *Baywatch Productions Co. Inc. v Home Video Channel Ltd.*, [1997] F.S.R. 22. This case primarily considered s 10(3) and will be discussed in more detail in Chapter 5.7.2.4 “Cases on Section 10(3)” *infra*.

<sup>209</sup> This step-wise approach used by the English courts is in contrast with the single test of “global appreciation” applied by the CJEC which also take into account the strength of the trade mark. See Case C-251/95, *SABEL B.V. v Puma A.G., Rudolf Dassler Sport* [1998] R.P.C. 199; E.T.M.R. 1 and Case C-39/97, *Canon Kabushiki Kaisha v Metro-Goldwyn-Mayer Inc. (Formerly Pathe Communications Corporation)* [1999] R.P.C. 117, discussed in Chapter 5.8 “Judgments of The Court of Justice of the European Communities (CJEC)” *infra*.

<sup>210</sup> See the explanation in fn 246 *infra*.



The next notable English decision in this regard was *Pfizer v Eurofood*.<sup>211</sup> Pfizer claimed that their well-known trade mark VIAGRA for a blue, lozenge-shaped drug would be infringed by Eurofood's proposed use of the mark VIAGRENE on a non-alcoholic drink marketed as an aphrodisiac. It was a blue liquid, presented in a blue bottle labeled with the name VIAGRENE and a diamond device. This was a landmark case in United Kingdom trade-mark law. The court turned away from the step-by-step approach used by Justice Jacob in previous English decisions and followed the "global appreciation" test laid down by the CJEC in the *SABEL* and *Canon* cases.<sup>212</sup> The judge said that the distinctiveness of the mark must be taken into account. The greater the distinctiveness, the greater the likelihood of confusion. There was clearly a likelihood of confusion and therefore a section 10(2) infringement.

Then followed the decision in *Premier Brands v Typhoon Europe Ltd.*<sup>213</sup> Plaintiff owned the well-known TY.PHOO mark for tea in class 30, for hand tools and implements for domestic use, including cutlery in class 8 and for domestic utensils and containers in class 21.<sup>214</sup> The defendants had registered the mark TYPHOON in class 21 and used it to market (upmarket) kitchen hardware. Both marks appear in similar typography: capital letters with a larger capital T, white lettering on a red background. It was not in dispute that the marks and at least some of the goods were similar.<sup>215</sup> One of the issues before the court was the likelihood of confusion in section 10(2).

In his preliminary observations, the judge referred with approval to the *Treat* case and said that the question of similarity of the mark was a distinct question from likelihood of confusion. But then he said that the greater the similarity between the marks, the greater the likelihood of confusion.<sup>216</sup> He then accepted the ruling of the CJEC in the *SABEL*

<sup>211</sup> *Pfizer Ltd. & Another v Eurofood Link (UK) Ltd.*, High Court of Justice, Chancery Division, 10 December 1999.

<sup>212</sup> See fn 209 *supra*.

<sup>213</sup> *Premier Brands UK Ltd. v Typhoon Europe Ltd.*, High Court of Justice, Chancery Division, 21 January 2000 (2000) 23(5) IPD; [2000] F.S.R. 767.

<sup>214</sup> The class 8 and 21 registrations were defensive registrations made under s 27 of the 1938 Trade Marks Act.

<sup>215</sup> Except for the tea mark which fall under s 10(3). The action brought under s 10(3) will be discussed in Chapter 5.7.2.4 "Cases on Section 10(3)" *infra*.

<sup>216</sup> *Premier Brands v Typhoon Europe Ltd.*, [2000] F.S.R. 767 at 776.



and *Canon* cases, namely that the correct test for the likelihood of confusion was the test of global appreciation.<sup>217</sup> On the evidence, however, after finding similarity of marks,<sup>218</sup> similarity of at least some of the goods and inherent distinctiveness of the TY.PHOO mark, he found that the average consumer for kitchenware would not experience a likelihood of (origin) confusion.<sup>219</sup> Justice Neuberger also said that “association” and “confusion” are different concepts. He conceded that “confusion could be said to be a particular type of association”,<sup>220</sup> which reverses the CJEC’s conclusion in *SABEL* that association is a particular type of confusion.<sup>221</sup>

The test of global appreciation for the likelihood of confusion as to origin of goods was also accepted by Justice Pumfrey in the *DaimlerChrysler v Alavi* case<sup>222</sup> to determine the similarity of marks. He also remarked that likelihood of association is an explanation of the kind of confusion as to origin. He founds no likelihood of confusion between the marks in this case and also no similarity of marks.<sup>223</sup> Further more he cast doubt on the presumption that the more distinctive the mark the greater the likelihood of confusion. According to him it is normally easier to distinguish a well-known word mark from others close to it. Baloch<sup>224</sup> comments that for comparison of the marks a well-known abbreviation of the registered mark can be used – in this case MERC for MERCEDES or MERCEDES-BENZ. Thus there was “abbreviation similarity”. This contention is however not supported by European case law.

<sup>217</sup> *Premier Brands v Typhoon Europe Ltd.*, [2000] F.S.R. 767 at 778. See Chapter 5.8 “Judgments of The Court of Justice of the European Communities (CJEC)” *infra* for a discussion of the *SABEL* and *Canon* cases.

<sup>218</sup> *Premier Brands v Typhoon Europe Ltd.*, [2000] F.S.R. 767 at 780-781. The judge found considerable aural similarity between the mark and the sign. The visual similarity is “not quite as significant”. Concerning conceptual features, there is “much less similarity”, TYPHOON being a word used in common speech and TY.PHOO being an invented word.

<sup>219</sup> *Premier Brands v Typhoon Europe Ltd.*, [2000] F.S.R. 767 at 785.

<sup>220</sup> *Premier Brands v Typhoon Europe Ltd.*, [2000] F.S.R. 767 at 793.

<sup>221</sup> See Michaels (2000) 338.

<sup>222</sup> *DaimlerChrysler A.G. v Javid Alavi (t/a Merc)*, [2001] R.P.C. 813 at 838. For the facts and more detail on this case, see Chapter 5.7.2.5 “The Key Concepts of Section 10(3) (iii) Unfair Advantage or Detriment” *infra*. See also Miles S “When is a Merc not a Mercedes-Benz?” (April 2001) *Trademark World* 26 at 31.

<sup>223</sup> The respective marks were MERC for clothing and MERCEDES and MERCEDES-BENZ for motor cars and clothing.

<sup>224</sup> Baloch (2001) 430.



It seems clear that the test for infringement in section 10(2) is now one of global appreciation, as also supported by the CJEC. It is generally accepted that the more distinctive the mark, the greater the likelihood of confusion, despite Justice Pumfrey's remarks in the *Merc* case. Confusion, however, must still relate to origin, not just association.<sup>225</sup> The interpretation of the courts on the similarity of goods has also changed from a very narrow one in the *Treat* case to a quite liberal one in the *Pfizer* case.

Another question which is relevant in the context of section 10(2), is whether this section also covers infringement with respect to dissimilar goods. In *Pfizer v Eurofood*<sup>226</sup> the court stated that there is "no automatic bar to a finding of infringement under section 10(2) merely because the goods ... are in some respects dissimilar... ." This was said in the context of the interdependence of the factors in the global assessment test. The court found that the goods "whilst superficially different, have similarities". VIAGRA is used on a tablet and VIAGRENE on a soft drink. Although the goods appear to be dissimilar, both products are used to stimulate the libido. The lesser degree of similarity between the goods is offset by the high degree of similarity between the mark and the sign, as well as the distinctive character and reputation of the registered mark.<sup>227</sup> Thus, one can conclude that the protection offered by section 10(2) depends on how one defines "similar".<sup>228</sup> In the light of the uncertainty regarding section 10(3) and its unfamiliarity, section 10(2) appears to some as a much safer and simpler choice, if "similar" can be defined in broad terms. This seems also to be the result of the *Canon* case decided by the CJEC.<sup>229</sup> In other words, there could be infringement of a particularly well-known mark within the terms of section 10(2) even where the goods were quite dissimilar, as long as there was a

<sup>225</sup> See Briggs (2000) 431.

<sup>226</sup> *Pfizer Ltd. & Another v Eurofood Link (UK) Ltd.*, High Court of Justice, Chancery Division, 10 December 1999, discussed *supra* in this section.

<sup>227</sup> Casey (May 2000) 26.

<sup>228</sup> See Welkowitz (2000) 94.

<sup>229</sup> For a discussion of this case see Chapter 5.8.1 "The Interpretation of Articles 4(1)(b) and 5(1)(b)" *infra*.



likelihood of confusion<sup>230</sup> and “confusion” includes a fairly broad range of conduct.

#### 5.7.2.4 CASES ON SECTION 10(3)

One of the first English cases where section 10(3) was raised, is *BASF v CEP (UK) plc.*<sup>231</sup> Concern was expressed by Justice Knox that as section 10(3) could be used to prevent use of a similar sign on any class of goods, much of the effect of having classes of goods for trade-mark registration would disappear. Furthermore, he considered that neither the distinctive character nor the repute of a mark would be adversely affected if there were no risk of confusion.

Then in 1997 the Chancery Division had to give judgment on section 10(3) in the *Baywatch* case.<sup>232</sup> The question whether section 10(3) requires confusion or not, was quite controversial, because, if not, it was believed, that there would be a lower standard for infringement in the case of dissimilar goods compared to the situation for similar goods. The court found that even this section offers no protection to a trade mark in the absence of a likelihood of confusion.<sup>233</sup>

BAYWATCH is one of the most popular television series in the United Kingdom. It is produced and marketed by an American company. The story centres around a team of lifeguards wearing red jackets and red bathing suits. Sometime during each episode these lifeguards run along the beach together, normally in order to save a drowning victim. The Adult Channel is a television network that broadcasts erotic adult entertainment to subscribers. During May and June 1996 they broadcast episodes of a pornographic film entitled BABEWATCH. It appeared that this programme also started with a beach scene, where actresses wearing red swimming costumes and carrying floatation devices, ran down a beach. But shortly after this, they were engaged in sexual acts.

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<sup>230</sup> See Michaels (2000) 338.

<sup>231</sup> *BASF v CEP (UK) plc.* [1996] E.T.M.R. 51. See also Michaels (2000) 336.

<sup>232</sup> *Baywatch Productions Co. Inc. v Home Video Channel Ltd.*, [1997] F.S.R. 22.

<sup>233</sup> Vuk (1998) 912-915; Davies (1998) 584; Marroletti (1999) 673.



The owners of the BAYWATCH trade mark then sought an interlocutory injunction to prevent any rebroadcast of BABEWATCH until the end of a full hearing. They admitted that there was no likelihood of confusion between the two programmes. The three causes of action were section 10(2) and 10(3) of the Trade Marks Act of 1994 and passing off. BAYWATCH contended "that the defendant's use of BABEWATCH, a similar trade mark to the registered trade mark, BAYWATCH, in connection with a television programme, was clearly intended to take advantage of the reputation and distinctive character of the plaintiff's trade mark". They went even further by saying that the BABEWATCH programme tarnished BAYWATCH's reputation.

Regarding the cause of action based on section 10(3), the court held that the applicant's arguments were not well founded. BAYWATCH, the applicant, interpreted section 10(3) so as to give protection whenever there is the possibility that another person is appropriating the trade-mark's goodwill or is using the infringing trade mark in a way which tarnishes the registered trade-mark's reputation. It also contended that this could even be the case where there is no likelihood of confusion. The court disagreed. The court concluded that the use of the concept of similarity in section 10(3) has the effect of bringing the concept of likelihood of confusion in as a requirement for trade-mark infringement.<sup>234</sup> Thus, trade-mark infringement under this section can only be found when an unauthorised user uses a trade mark which is similar to a registered trade mark, so that there is a likelihood of confusion, on goods that are dissimilar to the trade-marked goods. Further, he must use a trade mark that has a reputation in the United Kingdom and the use of the trade mark must take unfair advantage of or be detrimental to the distinctive character or repute of the trade mark.<sup>235</sup> The court came to this conclusion in

<sup>234</sup> The judge adopted the observations of Knox J in the case of *BASF plc v CEP (UK) plc*. [1996] I.P.D. 19(4), that the distinctive character or the repute of a mark is not adversely affected when there is no risk of relevant confusion. See Black R "Baywatch: Sour Grapes or Justice?" (1997) 2 *European Intellectual Property Review* 39 at 40. Another reason cited by Welkowitz (2000) 85 is that the court found it simply illogical to give greater protection where the goods are not similar than where they are similar.

<sup>235</sup> This decision is in line with the *obiter* comment of Jacob J in the *Treat* case, discussed in Chapter 5.7.2.3 "Cases on Section 10(2)" *supra*, where he said that s 10(3) would apply where there was no similarity between the goods, but still confusion.



the absence of evidence of actual confusion.<sup>236</sup> For this reason the court found that there was no use of a sign similar to the mark BAYWATCH so as to create a likelihood of confusion on the part of the public. The court based its decision on a determination that neither the Trademark Directive, nor the White Paper on the Trade Marks Act, supported giving a greater amount of protection where a similar trade mark is used on dissimilar goods.<sup>237</sup>

Many commentators believe that this case was wrongly decided, but if confusion were not required then it could lead to the situation that less has to be proved in respect of dissimilar goods and services than in the case of similar goods and services.<sup>238</sup> In the *SABEL* case<sup>239</sup> the CJEC held that a likelihood of confusion is not a requirement when dealing with article 5(2) of the Directive, which is equivalent to section 10(3), thereby indirectly confirming that the *Baywatch* case was wrongly decided. However, in the *Marks & Spencer* case<sup>240</sup> the court found itself unable to accept this opinion of the CJEC unreservedly.

Vuk<sup>241</sup> also holds the opinion that the *Baywatch* case was wrongly decided. In his words the Chancery Division's interpretation of section 10(3) of the 1994 United Kingdom Trade Marks Act<sup>242</sup> is "erroneous because there is no support for its conclusion that a likelihood of confusion is mandated by this paragraph". He reasoned that if the European Commission intended paragraph 2 of article 5 to be interpreted in the same light as paragraph 1(a) and (b), they would have named it paragraph 1(c). According to him it is quite clear that the BABEWATCH series was based on the BAYWATCH series, for the

<sup>236</sup> Black (1997) 40, justly remarks that it will always be difficult, if not impossible, to "expect members of the public to volunteer that they watch pornography even in the privacy of their own homes".

<sup>237</sup> See Vuk (1998) 914-5. This is because s 10(2) only grants protection for use of a similar sign on similar goods or services where there exists a likelihood of confusion.

<sup>238</sup> Davies (1998) 7; Welkowitz (2000) 85.

<sup>239</sup> Case C-251/95, *SABEL B.V. v Puma A.G.* [1998] E.T.M.R. 1 par 20. See the discussion in Chapter 5.8 "Judgments of The Court of Justice of the European Communities (CJEC)" *infra*. This was an *obiter* comment, but still carried some weight. See Briggs (2000) 432.

<sup>240</sup> *Marks & Spencer plc. v One In A Million* [1998] F.S.R. 265, 272-273. The court indicated that *Baywatch* and *SABEL* had left the law under s 10(3) unsettled on the issue of dilution and confusion. See Welkowitz (2000) 87.

<sup>241</sup> Vuk (1998) 928-929.

<sup>242</sup> Which corresponds to art. 5(2) of the Trademark Directive.



sole purpose of utilising some of the goodwill of the last-mentioned trade mark. By doing so, the reputation of the BAYWATCH trade mark was definitely tarnished. He also reasoned that dilution protection for BAYWATCH would not confer a monopoly to them, because the makers of BABEWATCH did not need to use a similar trade mark to compete effectively in the marketplace. They would still be able to produce pornographic movies.<sup>243</sup>

Black, counsel for the plaintiff, gives some interesting background information on this case.<sup>244</sup> Baywatch's claim for interlocutory relief was set down for hearing two days before the end of the last term and was eventually heard before a Deputy Judge. His main field of expertise was insolvency law. He even admitted during the hearing that this area of trade-mark law was foreign to him. To make matters worse it later appeared that the Senior Patents Judge could have heard the application and was not unavailable as at first thought. Except for the outcome of the case, which could have been totally different if decided by a more experienced judge in this field, some other issues arise from this judgment. One of these is extra costs incurred by the plaintiffs, *inter alia*, because a lot of time had to be spent explaining the basics of trade-mark law to the Deputy Judge during the hearing.<sup>245</sup>

In his commentary on the case Black also submits that if the drafters of the Act intended a likelihood of confusion to be part of section 10(3), they could easily have included it. In sharp contrast, they expressly wrote the requirement of a likelihood of confusion in section 10(2). Another aspect of the decision open to criticism is the judge's conclusion that BAYWATCH and BABEWATCH are not similar marks. Black rightly asks whether this can be supported.<sup>246</sup>

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<sup>243</sup> Vuk (1998) 929-930.

<sup>244</sup> Black (1997) 39.

<sup>245</sup> See Black (1997) 39-42 for his detailed version on this case.

<sup>246</sup> Black (1997) 41. Welkowitz (2000) 85 fn 114 explains this point further. The court had said that television shows with "adult content" were not similar to the type of show represented by BAYWATCH. Welkowitz gives a more technical explanation: BAYWATCH was not registered for television programmes, but for "video tapes and video discs". S 10(2) applies where the second use is "in relation to goods or services similar to those *for which the trade mark is registered*". The court found that video tapes were not similar to television programmes.



Another interesting case was that of *Audi-Med Trade Mark*,<sup>247</sup> which concerned opposed proceedings for a trade-mark registration under section 5(3), which is the counterpart of section 10(3) in the registration context of the Act. Application was brought by the maker of hearing aids and associated products to register the mark AUDI-MED. The German manufacturer of AUDI motor vehicles objected. The examiner stated that he believed that opposition to a registration can be brought on the ground of dilution, without regard to confusion.<sup>248</sup> The contention of the car manufacturer that the registration of AUDI-MED would cause confusion, was however rejected. The examiner found that the AUDI-MED mark would not be detrimental to AUDI or take unfair advantage of the AUDI mark. He took into account the narrow and disparate markets each occupied and the different outlets of sale.

In the same year an objection was raised to the registration of EVEREADY for contraceptives and condoms by the well-known manufacturer of batteries in *Oasis Stores Ltd's Trade Mark Application*.<sup>249</sup> The Hearing Officer concluded that section 5(3) was aimed at preventing the illegitimate exploitation of an existing trade-mark's reputation.<sup>250</sup> He mentioned the uncertainty about whether confusion is a requirement under section 10(3) and 5(3) and in this context referred to the *Marks & Spencer* case,<sup>251</sup> which in turn referred to *BASF v CEP* and *Baywatch* where confusion was required.<sup>252</sup> He said that he did not think that confusion as to origin was a necessity for a finding of unfair advantage or detriment. The objection failed, because the Hearing Officer reached the conclusion that normal and fair use of the mark on contraceptives and condoms would not lead to detriment to the reputation of EVER READY batteries in any material fashion.<sup>253</sup>

<sup>247</sup> *Audi-Med Trade Mark* [1998] R.P.D. & T.M. 863. See the short discussion in Welkowitz (2000) 87.

<sup>248</sup> *Audi-Med Trade Mark* [1998] R.P.D. & T.M. 863 at 871-872.

<sup>249</sup> *Oasis Stores Ltd's Trade Mark Application* [1998] R.P.C. 631.

<sup>250</sup> *Oasis Stores Ltd's Trade Mark Application* [1998] R.P.C. 631 at 647.

<sup>251</sup> *Marks & Spencer plc. v One In A Million* [1998] F.S.R. 265, 272-273.

<sup>252</sup> *Oasis Stores Ltd's Trade Mark Application* [1998] R.P.C. 631 at 646.

<sup>253</sup> *Oasis Stores Ltd's Trade Mark Application* [1998] R.P.C. 631 at 651. The judge reached this conclusion on the assumption that the use of condoms is now "widely promoted and encouraged" and that "the stigma previously associated them is much reduced, if not eliminated".



More clarity on the situation in the United Kingdom was given by the judge in the *Pfizer* case.<sup>254</sup> He felt bound by the *SABEL* case, decided by the CJEC, and concluded that “proof of likelihood of confusion is not a requirement of proving infringement pursuant to s 10(3)”. This was also the conclusion of Justice Neuberger in *Premier Brands*:<sup>255</sup> “It appears tolerably clear to me from the terms of section 10, that confusion is not a necessary ingredient to establishing infringement under section 10(3)”. Some evidence that there is an association in the mind of the public between the two marks is necessary to show unfair advantage or detriment. This is, however, not the same as confusion in the sense of section 10(2).<sup>256</sup> Also Justice Pumfrey in the *DaimlerChrysler* case agreed that section 10(3) did not require proof of confusion.<sup>257</sup> This was also concluded in two registry cases, *Corgi TM* and *CA Sheimer’s Trade Mark Application*.<sup>258</sup>

Justice Neuberger however stated in *Premier Brands* that the existence of confusion can indicate detriment and in the absence of confusion it will be necessary for the claimant to find some other detriment to succeed on an infringement claim under section 10(3).<sup>259</sup>

<sup>254</sup> *Pfizer v Eurofood*, High Court of Justice, Chancery Division, 10 December 1999. See Chapter 5.7.2.3 “Cases on Section 10(2)” *supra* for the facts. As the court found a likelihood of confusion and therefore s 10(2) infringement, his remarks on s 10(3) were *obiter*.

<sup>255</sup> *Premier Brands v Typhoon Europe Ltd.*, High Court of Justice, Chancery Division, 21 January 2000 (2000) 23(5) IPD; [2000] F.S.R. 767 at 788. See also Chapter 5.7.2.3 “Cases on Section 10(2)” *supra* for the facts. With regard to the s 10(3) claim, the following elements were addressed by Neuberger J: “without due cause”; the burden of proof; “detriment” and “unfair advantage”. See the discussion in Chapter 5.7.2.5 “The Key Concepts of Section 10(3)” *infra*.

<sup>256</sup> Briggs (2000) 432.

<sup>257</sup> *DaimlerChrysler A.G. v Javid Alavi (t/a Merc)*, [2001] R.P.C. 813 at 841, discussed in Chapter 5.7.2.5 “The Key Concepts of Section 10(3) (iii) Unfair Advantage or Detriment” *infra*. The judge (at 842), however, sees two different applications for s 10(3): one where the defendant’s sign is sufficiently similar to the registered mark so that the public are *deceived* into the belief that the goods are associated with the proprietor and the other where the public is not confused. See also Miles (2001) 32.

<sup>258</sup> *Corgi TM* [1999] R.P.C. 549; *CA Sheimer (M) SDN BHD’s Trade Mark Application* [2000] R.P.C. 484 at 504. Both were decided by Geoffrey Hobbs, Q.C. under s 5(3), which is substantially identical to s 10(3), requiring the refusal of an application to register as a trade mark any sign which would clash with an earlier registered trade mark.

<sup>259</sup> *Premier Brands v Typhoon Europe Ltd.*, [2000] F.S.R. 767 at 803. See also Chaudri A “Case Comment: *Premier Brands UK Ltd v Typhoon Europe Ltd*” (April 2000) *Trademark World* 12; Chaudri A “United Kingdom: Trademark Infringement Cases 2000” (May 2001) *Trademark World* 34 at 36.



Baloch believes that the courts will still continue to grapple with this notion of confusion in section 10(3).<sup>260</sup>

Section 10(3) requires that the mark and sign must be identical or similar. The Appointed Person, Thorley Q.C., in *Inlima's Application*<sup>261</sup> stated that the purpose of requiring similarity is so that "the possibility of detriment or unfair advantage might arise". He then concludes that the "same global appreciation test as is required under section 5(2) (or section 10(2)) is likewise to be applied to the changed circumstances of section 5(3)".<sup>262</sup>

Section 10(3) on its plain wording, is further only applicable in the case of non-similar goods. In the cases of *Davidoff v Gofkid* and *Adidas v Fitnessworld*,<sup>263</sup> the CJEC, however, interpreted article 5(2) of the Directive, as also applicable in the case of identical or similar goods. Article 5(2) is not mandatory, but Member States had the option to introduce its protection in their national laws, which was what the United Kingdom did in section 10(3). In the *Adidas v Fitnessworld* case the United Kingdom Government contended that it was for the national courts to interpret a provision transposing article 5(2) in relation to the protection which a Member State intended to confer on proprietors of marks with a reputation. The CJEC however stated that the Member State's option only relates to the principle of granting greater protection to marks with a reputation,<sup>264</sup> but not to the situations covered by that protection. The national courts must interpret their national laws in the light of the wording and the purpose of the Directive. The United Kingdom must therefor grant protection in terms of

<sup>260</sup> See Baloch (2001) 431. He sees this in the approach of Pumfrey J in the *DaimlerChrysler* case at 842 and even in Neuberger J's handling of the *Typhoon* case, the case which gave the most recognition to dilution in English law thus far.

<sup>261</sup> *Inlima's Application* [2000] E.T.M.R. 325; [2000] R.P.C. 661 at 664. See Chapter 5.7.2.5 "The Key Concepts of Section 10(3) (iii) Unfair Advantage or Detriment" *infra*.

<sup>262</sup> He found at 665 that the similarity of Inlima's mark to the ADIDAS trade mark is obvious.

<sup>263</sup> Case C-292/00, *Davidoff & Cie and Zino Davidoff SA v Gofkid Ltd.*, 9 January 2003; Case C-408/01, *Adidas-Salomon A.G., formerly Adidas A.G., Adidas Benelux BV v Fitnessworld Trading Ltd.*, 23 October 2003. See the discussion in Chapter 5.8.2 "The Interpretation of Article 5(2)" *infra* and also Morcom (2003) 281.

<sup>264</sup> As stated above, art. 5(2) of the Directive was optional, thus Member States could decide whether or not they wanted to include this provision in their national laws. The United Kingdom included this provision as s 10(3) of the 1994 United Kingdom Trademarks Act.



section 10(3), which is “at least as extensive for identical or similar goods or services as for non-similar goods or services”.<sup>265</sup>

It is however, very unlikely that the drafters of the United Kingdom Act would have understood the provisions of article 5(2) so as also to include identical or similar goods. Had they understood it in that way, would they have wanted to confer the full range of protection as now permitted by the CJEC?<sup>266</sup>

### 5.7.2.5 THE KEY CONCEPTS OF SECTION 10(3)

Section 10(3) brings several concepts, some new to trade-mark infringement law, into being. The 1994 Act fails to define these key expressions. These concepts are “uses in the course of trade”, “without due cause”, “unfair advantage”, detriment”, “reputation” and “distinctive character”.

#### (i) “Use in the Course of Trade”

As a preliminary issue, it must be determined whether the defendant’s use of the sign must be “use as a trade mark”, in other words use as an indicator of commercial origin. This phrase does not appear in the 1994 Act. Although there are different opinions amongst commentators, it seems that “use as a trade mark” will be required, especially in the light of the wide infringement provisions in the 1994 Act.<sup>267</sup> That means use in a manner that distinguishes the goods and services of the user of the mark from those of others<sup>268</sup> or use so as to indicate a connection in the course of trade with the goods or services in relation to which it is used.<sup>269</sup>

<sup>265</sup> Case C-408/01, *Adidas-Salomon A.G., formerly Adidas A.G., Adidas Benelux B.V. v Fitnessworld Trading Ltd.*, 23 October 2003 par 20-22.

<sup>266</sup> Morcom (2003) 281.

<sup>267</sup> Carty (1997) 685.

<sup>268</sup> Welkowitz (2000) 88.

<sup>269</sup> Martino (1996) 91.



If “use as a trade mark” is not a requirement it will imply that use in a non-trade mark sense of a word, which happens to be a trade mark, will be an infringement. Martino quotes the example of a hypothetical trade mark “Crocodile” for shoes. Another manufacturer would then be unable to describe his shoes as “made of crocodile skin”.<sup>270</sup> From another viewpoint, if trade-mark use is abandoned, it would have the result that “commercial copyright” in that word will be conferred on the proprietor.

The phrase “use in the course of trade”, although not defined in the 1994 Act also appeared in the 1938 Trade Marks Act. It has been explained as “use in the course of business or professional enterprise or any other non-private activity intended to produce economic benefit”.<sup>271</sup> Another description is that it “comprehend[s] any dealing with goods or services up to the time of their ultimate sale or delivery to consumers, but would appear to exclude dealing[s] of a purely private or domestic nature”.<sup>272</sup>

## (ii) “Without Due Cause”

This requirement leaves open the possibility that it can, in some cases, be unreasonable to require the alleged infringer to stop the use of the sign. This would be where the use of the sign is in due cause, thus where there is a need to use the mark or where the defendant cannot honestly be asked to refrain from doing so regardless of the damages the owner of the mark would suffer from such use.<sup>273</sup> This criterion also makes it possible for a court to weigh up the interests of the parties, thus conferring judicial discretion.<sup>274</sup> Prior use can, for example, be taken into consideration.<sup>275</sup> Comparative advertising and spare part advertising would normally be viewed as due cause use in the case of similar goods.<sup>276</sup>

<sup>270</sup> See Martino (1996) 92, 118.

<sup>271</sup> Kamperman Sanders (1995) 71. “Trade” is defined in the Act in s 103(1) as “including any business or profession”.

<sup>272</sup> See Martino (1996) 91.

<sup>273</sup> See Chaudri (2000) 13.

<sup>274</sup> Martino (1996) 103.

<sup>275</sup> Briggs (2000) 433; Chaudri (2000) 13.

<sup>276</sup> Kamperman Sanders (1995) 70-71. See Chapter 5.7.2.6 “Comparative Advertising in the UK” *infra*.



This phrase was for the first time explained in any detail in English case law in the case of *Premier Brands v Typhoon Europe*.<sup>277</sup> Justice Neuberger saw this phrase as a defence on which a defendant might rely to avoid liability. Therefore, he felt that the burden of proof lies with the defendant, which has to show that his use of the mark was with due cause and also that any advantage or detriment is not without due cause. The defendants argued that “without due cause” has the same meaning as “in good faith”, or “for good and honest commercial reasons”. These contentions were rejected by the court, for the following reasons. First, it could lead to unpredictable and, in some cases, very unfair results if innocence was going to be a defence; secondly, it also applied to the words “unfair advantage” and “detriment”; and thirdly, the same contention was also rejected by the Benelux Court of Justice.<sup>278</sup> Justice Neuberger stated that the purpose of section 10(3) is to protect the value and goodwill of trade marks. He also said that use of the sign might be prevented even where the sign was innocently adopted, as he found in this case. The judge then found that the defendants did use their sign without due cause.

### (iii) “Unfair Advantage or Detriment”

According to Kamperman Sanders<sup>279</sup> this criterion is an expansion of the association criterion of section 10(2). A heavier burden of proof is, however, placed on the plaintiff to show that there was infringement. In the first place unfair advantage or detriment must be proved and then, secondly, also that the plaintiff’s mark has a reputation.

<sup>277</sup> *Premier Brands v Typhoon Europe Ltd.*, High Court of Justice, Chancery Division, 21 January 2000; (2000) 23(5) IPD; [2000] F.S.R. 767 at 789-792. Casparie-Kerdel (2001) 192 fn 47 is of the opinion that this case gives a “very good overview of dilution in Art 5(2)”. See Chapter 5.7.2.3 “Cases on Section 10(2)” *infra* for the facts. See further Chaudri (2001) 36.

<sup>278</sup> In *Lucas Bols v Colgate-Palmolive* [1976] 7 I.I.C. 420. The court, in that case, explained that the phrase “without justifiable reason” means that “the user of the mark is under such a compulsion to use this very mark that he cannot honestly be asked to refrain from doing so regardless of the damages the owner of the mark would suffer...”

<sup>279</sup> Kamperman Sanders (1995) 71.



To prove unfair advantage or detriment it would probably be sufficient to show that there was damage. In the *Claeryn/Klarein* decision<sup>280</sup> the Benelux Court of Justice held that damage could consist of a dilution of the drawing power of the mark, harm to the capacity of the mark to promote sales and loss of exclusivity. Under Benelux law the registered trade mark did, at that stage, not need to have a reputation, although the reputation of the mark could play a role in the assessment of the damage. In *CA Sheimer's TM Application*<sup>281</sup> the Appointed Person, Geoffrey Hobbs Q.C., noted that to establish unfair advantage or detriment the applicant needed to show that there was either a positive or negative exploitation of his mark.<sup>282</sup> A positive exploitation is then described as a calculated, parasitic use of the mark, especially where the court feels that there is an element of injustice in that use. In *Inlima's Application*<sup>283</sup> it was held that section 5(3) was intended to prevent the sort of "parasitic use" evident on the facts of the case.<sup>284</sup> "Parasitic use" is defined as use "which unjustly draws upon the recollection of the opponent's trade mark in the course of trade in goods bearing the applicant's trade mark". The Appointed Person, Thorley Q.C., found that the three-stripe device depicted on Inlima's football shape container is likely to bring about an association between beverages and ADIDAS boots. This association could bring benefit to Inlima by way of

<sup>280</sup> *Colgate-Palmolive B.V. v NV Koninklijke Distilleerderijen Erven Lucas Bols*, BCJ 1 March 1975 [1975] N.J. 472. See Chapter 5.7.1.5 "Section 13A(2) of the Uniform Benelux Trade Marks Act" *supra* for a discussion of this case.

<sup>281</sup> *CA Sheimer (M) SDN BHD's Trade Mark Application* [2000] R.P.C. 484 at 505. This is known as the *VISA* case. The defendant, Sheimer, wanted to use VISA, a well-known registered trade mark of the provider of financial services on condoms. Hobbs Q.C. found that Sheimer's mark would trigger recollections of the earlier mark. He found that VISA for condoms was chosen to gain attention through the fame of the earlier mark, but that there was no unfair advantage "of the kind contemplated by section 5(3)". He, however, found that the association which could be made between the marks would be detrimental to the repute or distinctive character of the earlier VISA mark. Carty H "Registered Trade Marks and Permissible Comparative Advertising" (2002) 6 *European Intellectual Property Review* 294 at 298; Michaels (2000) 337.

<sup>282</sup> This was also his conclusion in the hearing of an earlier application, *Corgi TM* [1999] R.P.C. 549. *In casu* there was no evidence of unfair advantage taken of or detriment caused to the applicant's well-known mark for model cars by the use of the mark CORGI on clothing. The application of the proprietor of the earlier mark for a declaration of invalidity was rejected.

<sup>283</sup> *Inlima's Application* [2000] E.T.M.R. 325; [2000] R.P.C. 661 at 666. Michaels (2000) 337.

<sup>284</sup> Adidas opposed Inlima's application to register a three-dimensional container in the form of a football boot with three stripes on the side as a mark for a variety of alcoholic and non-alcoholic drinks. ADIDAS owns registrations for a three-stripes device trade mark in respect of footwear and sports shoes for casual wear.



the favourable association with ADIDAS and could also in the case of alcoholic beverages bring detriment to ADIDAS' three-stripes device trade mark.<sup>285</sup>

Justice Pumfrey in the case of *DaimlerChrysler v Alavi*<sup>286</sup> held the opinion that actual unfair advantage or detriment is required for an infringement of section 10(3) and not just the likelihood of this happening.<sup>287</sup> Alavi, the defendant, had owned a shop under the name *Merc* in London since 1967, where he sold clothing and shoes, some carrying the MERC label. DaimlerChrysler owns the Mercedes-Benz business and they have several registered UK trade marks, *inter alia* MERCEDES and MERCEDES-BENZ for clothing and also for vehicles.<sup>288</sup> Infringement of sections 10(2)(b) and 10(3) and of the Community trade marks, as well as passing off were claimed. The judge found against the claimant on each of these claims.

Unfair advantage and detriment are stated in the alternative, which might probably mean that these two concepts are supposed to have different meanings.<sup>289</sup> Even so, it is clear that they cannot stand apart from the remainder of the subsection.

Briggs assumes that a plaintiff must show intention on the part of the defendant to succeed on an unfair advantage claim.<sup>290</sup> This is not easily proved and therefore he suggests that the court should make inferences from the evidence before the court. The

<sup>285</sup> *Inlima's Application* [2000] E.T.M.R. 325; [2000] R.P.C. 661 at 666.

<sup>286</sup> *DaimlerChrysler A.G. v Javid Alavi (t/a Merc)*, [2001] R.P.C. 813 at 842. See discussions of this case by Baloch (2001) 427-433; Miles (2001) 26-35.

<sup>287</sup> "The section ... is concerned with actual effects, not risks or likelihoods". The judge found that the marks were not similar, but even if they were, he thought that the claimants could not prove infringement under s 10(3). See Chapter 4.10.4 "Likelihood of Dilution vs Actual Dilution" *supra* for a detailed discussion of this debate in United States law. See also Miles (2001) 32 and Baloch (2001) 432-433, who points out the difficulties of the actual harm standard, also with reference to the United States law.

<sup>288</sup> They also have two Community trade marks, MERCEDES-BENZ for all classes and MERC for vehicles and vehicle parts. They claimed that the marks have a sufficient reputation, because of their general notoriety among the public. Their CTM claims failed, because there was no recorded use by the claimant of the CTMs and also their reputation was not sufficient. See in general Chapter 5.6 "The Community Trade Mark" *supra*.

<sup>289</sup> See, for example, Martino (1996) 103, 116-7.

<sup>290</sup> Briggs (2000) 433. He infers this from the fact that the parties in the *Premier* case abandoned their case on this point. There was evidence that the defendant adopted their sign without any intention to benefit from the plaintiff's mark.



evidence he has in mind, is the same that is used in a passing-off action, namely that the defendant is misrepresenting<sup>291</sup> that his goods are somehow connected to those of the trade-mark proprietor. The only difference is that in the case of unfair advantage there must be knowledge on the side of the defendant, or *mens rea*. He suggests the reasonable-man test to determine whether the misrepresentation was made with the intention to deceive. The problem with the concept of misrepresentation as used in passing-off cases is just this: there must be deception or confusion, which is normally present in same or similar goods situations. The dilution concept is intended particularly for situations where deception or confusion is absent, the goods are dissimilar, but there still exists some connection between them.<sup>292</sup>

Another possibility is to equate "unfair advantage" with misappropriation, which is a form of unfair competition. There is however no general cause of action for unfair competition/misappropriation in English law. In the *Pfizer* case<sup>293</sup> it was noted that "unfair advantage" requires an enquiry into the benefit to be gained by the defendant from the use of the mark complained of. Justice Thorley accepted that the defendant was keen to establish an association with VIAGRA to enhance the sales of his product. According to Casey,<sup>294</sup> the court's analysis was based primarily on the intention of the defendant to establish an association with and to trade on the goodwill associated with VIAGRA. Justice Neuberger, in the *Premier Brands* case,<sup>295</sup> defined (*obiter*) "unfair advantage" by quoting from a German case,<sup>296</sup> as follows:

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<sup>291</sup> Martino (1996) 108 believes misrepresentation is just one form of unfair advantage. Or as he explains, unfair advantage might be "misrepresentation in all of its variant forms (whether now known or hereafter invented)".

<sup>292</sup> See also Martino (1996) 108-109

<sup>293</sup> *Pfizer v Eurofood*, High Court of Justice, Chancery Division, 10 December 1999. See Chapter 5.7.2.3 "Cases on Section 10(2)" *supra* for the facts.

<sup>294</sup> Casey S "Infringement Under the UK Trade Marks Act 1994 Part 2" (June/July 2000) *Trademark World* 10 at 14.

<sup>295</sup> *Premier Brands v Typhoon Europe Ltd.*, High Court of Justice, Chancery Division, 21 January 2000 (2000) 23(5) IPD; [2000] F.S.R. 767 at 788. See also Chapter 5.7.2.3 "Cases on Section 10(2)" *supra* for the facts.

<sup>296</sup> *Dimple*, 1985 GRUR 550.



“[I]t constitutes an act of unfair competition to associate the quality of one’s goods or services with that of prestigious competitive products for the purpose of exploiting the good reputation of a competitor’s goods or services in order to enhance one’s promotional efforts.”

The question can reasonably be asked, whether use of another’s better-known mark simply to catch the consumer’s eye, is unfair?<sup>297</sup>

Martino feels that the word “unfair” is intended to confer a judicial discretion, which is seemingly a wide one.<sup>298</sup> The statement “which takes unfair advantage of” is so vague that it leaves room for human inventiveness. What may not be actionable today may become actionable in future. This statement thus leaves room for individual judges to make individual decisions when asked.<sup>299</sup> Martino also noted that “unfair advantage” can refer to the defendant’s requisite state of mind in adopting the plaintiff’s mark. His state of mind can be inferred from his motives and actions.<sup>300</sup>

Detriment, according to Justice Thorley in the *Pfizer* case, requires an enquiry into the damage to the goodwill accruing to the business in the goods sold under the trade mark.<sup>301</sup> The judge found that “the potential damage to that reputation by the sale of a beverage purporting to be an aphrodisiac in circumstances which, ... is calculated to call to mind the name VIAGRA, is obvious”. According to Briggs,<sup>302</sup> detriment can occur in two ways, namely blurring or tarnishing.<sup>303</sup> This was also the view of Justice Pumfrey in the *DaimlerChrysler* case<sup>304</sup> and Justice Neuberger in *Premier Brands*.<sup>305</sup>

<sup>297</sup> Carty (1997) 686. There can thus be uses that take advantage, but not necessarily *unfair* advantage. See also Martino 109.

<sup>298</sup> Martino (1996) 105.

<sup>299</sup> Martino (1996) 105.

<sup>300</sup> Martino (1996) 109-110.

<sup>301</sup> Casey (June/July 2000) 14 submits that damage to reputation of the trade mark is sufficient for the purposes of s 10(3). Damage to the goodwill accruing to a business is therefore not required.

<sup>302</sup> Briggs (2000) 433.

<sup>303</sup> It is submitted that the more appropriate term in the context is tarnishment, as used in this dissertation.

<sup>304</sup> *DaimlerChrysler A.G. v Javid Alavi (t/a Merc)*, [2001] R.P.C. 813 at 842. He said that detriment can either make the mark “less attractive” (tarnishment) or “less distinctive” (blurring).

<sup>305</sup> *Premier Brands v Typhoon Europe Ltd.*, High Court of Justice, Chancery Division, 21 January 2000; (2000) 23(5) IPD; [2000] F.S.R. 767 at 798.



Justice Neuberger stated that an association between the two marks is a prerequisite for a finding of detriment.<sup>306</sup> In this case he found that in the minds of some consumers there would be a degree of association between the mark and the sign, given the similarities between TYPHOON and TY.PHOO and the result of a survey. He, however, found that the association would only occur in below five percent of customers and would not be particularly strong. According to the court, blurring occurs where the distinctiveness of a mark is eroded or the uniqueness of the mark reduced. The public must make an association between the two marks in such a way that they will not exclusively call to mind the product of the plaintiff when they see his mark. On the facts of the case, Justice Neuberger found that there had been no blurring.<sup>307</sup> He warned, however, against the concept of dilution being applied to section 10(3). He said that “if the fact that a sign is associated with a mark by a small but not insignificant proportion of members of the public and only to a limited and verbal extent, is enough to amount to dilution of the mark, then I consider that dilution is a concept which goes further than section 10(3)”. Briggs submits that “the English courts are going to be cautious in finding infringement on the basis of blurring, particularly as this was imported into UK law in the 1994 Act for the first time”.<sup>308</sup>

Examples of tarnishment can be found in the *Claeryn/Klarein* case where the Benelux Court of Justice found infringement on the basis that detergents were an unattractive association for gin.<sup>309</sup> United Kingdom examples can be found in the *VISA* case and in *Premier Brands*. In the *VISA* case<sup>310</sup> Sheimer applied for the registration of VISA in relation to condoms and contraceptives. Visa International, which has a registration for

<sup>306</sup> *Premier Brands v Typhoon Europe Ltd.*, [2000] F.S.R. 767 at 793-798.

<sup>307</sup> *Premier Brands v Typhoon Europe Ltd.*, [2000] F.S.R. 767 at 801-803. The judge referred to the concept of dilution in the United States law and to the *Quick* judgment of the German Federal Supreme Court, 1959 GRUR 182. He also found no tarnishment in this case after discussing the concept at 798-801.

<sup>308</sup> Briggs (2000) 434. Baloch (2001) 431 also refers to the “reluctance” of United Kingdom courts to accept that s 10(3) supports a dilution by blurring claim. The Appointed Person in the *VISA* case, Hobbs Q.C. (at 506), also preferred not to use the word dilution, describing it as “a word of uncertain meaning” which may go further than the wording of the Act intends. Justice Pumfrey in *DaimlerChrysler* found the dilution concept “somewhat fugitive” and Justice Neuberger also warned against “applying it too blindly”.

<sup>309</sup> See Chapter 5.7.1.5 “Section 13(2)A of the Uniform Benelux Trade Marks Act” *supra*.

<sup>310</sup> *CA Sheimer (M) SDN BHD's Trade Mark Application* [2000] R.P.C. 484.



VISA for financial services, objected. Hobbs Q.C. decided that Sheimer's use of the word VISA would be detrimental to the distinctive character of Visa International's earlier mark, as it carries connotations of birth control and sexual hygiene that would alter perceptions of Visa International's mark as a provider of financial services negatively.<sup>311</sup> In the *Premier Brands* case the argument was that some people would associate the unattractive features inherent in the word Typhoon, namely connotations of the destructive power of tropical cyclones, with the mark TY.PHOO.<sup>312</sup> The judge dismissed this argument, given the success of the TY.PHOO brand in the United Kingdom. DaimlerChrysler<sup>313</sup> also pleaded tarnishment of the high quality image of their marks, as the defendant's sign, MERC, was heavily associated with "Mods, Skinheads and casuals". Defendant's website also contained links to Skinhead sites which were described as distasteful. This argument was rejected, as the judge did not think that anyone would associate the MERC mark on the website with DaimlerChrysler's marks. He said that for tarnishment one needs to show that the negative association "actually rubs off on the sign MERC itself or on MERCEDES, or on DaimlerChrysler".

Martino also lists other uses that might be detrimental to a mark, namely generic use of a trade mark<sup>314</sup> and use of a trade mark in parodies.<sup>315</sup>

#### (iv) "Reputation"

Except for the likelihood of association concept, the reputation criterion is the one most likely to cause interpretation problems. In the Trademark Directive alone, three different levels of reputation can be found in the words "distinctiveness", "reputation" and "well-known". From the White Paper on the Reform of Trade Marks Law<sup>316</sup> it was clear that

<sup>311</sup> *CA Sheimer (M) SDN BHD's Trade Mark Application* [2000] R.P.C. 484 at 505-506.

<sup>312</sup> *Premier Brands v Typhoon Europe Ltd.*, [2000] F.S.R. 767 at 798-801. This was almost the converse argument to that in most other cases, where it was argued that the goods for which the allegedly infringing sign were used, would tarnish the value of the registered marks. See also Chaudri (2000) 14; Chaudri (2001) 36.

<sup>313</sup> *DaimlerChrysler A.G. v Javid Alavi (t/a Merc)*, [2001] R.P.C. 813 at 842-844.

<sup>314</sup> This includes use of a trade mark as the name of a genus of products as well as the use of a trade mark in a dictionary, encyclopedia or other collective or reference work.

<sup>315</sup> Martino (1996) 116.

<sup>316</sup> Cm 1203; par 3.17 to 3.19.



the United Kingdom Government intended to incorporate article 5(2) of the Trademark Directive, as well as article 4(4)(a).<sup>317</sup> In both sections there are references to marks with a reputation, but the White Paper refers to them as well-known marks. This may lead to the conclusion that "reputation" in the corresponding sections of the United Kingdom Trade Marks Act, has the same meaning as "well-known" as used in article 6*bis* of the Paris Convention.<sup>318</sup> Some people, however, argue that "reputation" involves something less than "well-known", as used in article 6*bis*.<sup>319</sup> Support for this argument can be found in the various drafts of the Directive and also in the fact that "well-known" is used in some other articles of the Directive.<sup>320</sup> There is another way in which to distinguish between renown and repute. Renown focuses on the quantity of consumer knowledge, while reputation apparently entails the commercial or advertising value of the mark.<sup>321</sup> This means that even a mark with a low degree of renown, but with an attractive, strongly associative image, can have a reputation.

If reputation then entails something less than fame or renown, it contemplates that in theory dilution protection under the United Kingdom Act is much wider than in most of Europe and the United States. Martino argues that reputation in section 10(3) can be equated to distinctiveness.<sup>322</sup> He then concludes that this means *de facto* distinctiveness; in other words, section 10(3) does not extend to unused marks.

Reputation is a matter of fact.<sup>323</sup> To ascertain whether a trade mark has a reputation, one must thus look at the relevant sector of the public and also take into account the specialisation of the market.<sup>324</sup> It is important to see whether the trade-mark owner has added any value to the trade mark aside from registering it. The only way to do this is by

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<sup>317</sup> Martino (1996) 93.

<sup>318</sup> Kamperman Sanders (1995) 72.

<sup>319</sup> Davies (1998) 41-42 and fn 26, 158 and fn 58. Reputation would refer to the word "known" ("bekend" in Dutch and Afrikaans).

<sup>320</sup> See art. 4(2)(d) of the Directive, where there is a reference to trade marks which are well-known in the sense of art. 6*bis* of the Paris Convention.

<sup>321</sup> Carty (1997) 685. Renown in Germany, for example, requires that at least 70 to 80 percent of the buying public must know the mark.

<sup>322</sup> Martino (1996) 93-95.

<sup>323</sup> Martino (1996) 93.

<sup>324</sup> Davies (1998) 41-42; 158. See also Welkowitz (2000) 90.



use of the mark as a trade mark. This can be measured by looking at the goodwill created by the mark. The requirements for the existence of goodwill in passing-off cases can be very useful to establish whether a mark has the reputation required under section 10(3) of the Trademarks Act.<sup>325</sup> Passing off is fundamentally concerned with reputation in the sense of distinctiveness.<sup>326</sup> Thus, Martino argues, a mark can only become distinctive and consequently have a reputation through use.<sup>327</sup>

Another question that comes to mind is how geographically widespread the reputation must be. Section 10(3) states that the trade mark must have “a reputation in the United Kingdom”. The United Kingdom consists of Great Britain and Northern Ireland. According to section 108 this includes England, Wales, Scotland, Northern Ireland and subject to certain exceptions also the Isle of Man.<sup>328</sup> In *CA Sheimer's Trade Mark Application*,<sup>329</sup> the Appointed Person, Hobbs Q.C., accepted the ruling of the CJEC in the *General Motors* case<sup>330</sup> on “reputation” as the law on this subject. The CJEC decided that the requirement of “reputation” calls for a reputation amongst a “significant part of the public concerned by the products or services” covered by the earlier trade mark “in a substantial part of the territory” of the Member State.

Martino also concludes that registration in terms of the Act bestows the necessary proprietary right, thus requiring neither a business in the United Kingdom nor goodwill.<sup>331</sup>

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<sup>325</sup> Kamperman Sanders (1995) 74.

<sup>326</sup> Martino (1996) 93.

<sup>327</sup> Martino (1996) 93-94. This is a radical departure from prior statutory law, which merely required registration to qualify for relief.

<sup>328</sup> Martino (1996) 101.

<sup>329</sup> *CA Sheimer (M) SDN BHD's Trade Mark Application* [2000] R.P.C. 484 at 504.

<sup>330</sup> Case C-375/97, *General Motors Corp. v Yplon SA*, [1998] E.C.R. I-5421; [2000] R.P.C. 572 at 578. See Chapter 5.8.2 “The Interpretation of Article 5(2)” *infra*.

<sup>331</sup> Martino (1996) 102.



(v) **“Distinctive Character or Repute”**

Nothing new is added to the subsection by these words, as “distinctive character” is a prerequisite for a mark to be registered as a trade mark. Only registered marks are protected by section 10(3). This phrase presumably covers invented or arbitrary marks, as well as marks that gained distinctiveness through a secondary meaning.<sup>332</sup>

Martino states that what precisely is meant by “repute” “is anyone’s guess”. He suggests that it means that the mark must be factually distinctive. It appears, in his view, to denote “perceived high quality”.<sup>333</sup>

#### 5.7.2.6 COMPARATIVE ADVERTISING IN THE UK

Comparative advertising is advertising or promotion that in some way, either explicitly or by implication, refers to or identifies a competitor or their product or services. Comparative advertising can be to the advantage of the public, as it can help them to make more rational choices and at the same time stimulates competition. But in cases of serious misinformation or false disparagement trade-mark law should offer protection. This is the traditional common-law approach.<sup>334</sup>

Comparative advertising in the United Kingdom<sup>335</sup> is statutorily addressed in section 10(6) of the 1994 Act:

- (6) “Nothing in the preceding provisions of this section shall be construed as preventing the use of a registered trade mark by any person for the purpose of identifying goods or services as those of the proprietor or a licensee.

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<sup>332</sup> Martino (1996) 120.

<sup>333</sup> Martino (1996) 120.

<sup>334</sup> Compare Carty (2002) 294-300.

<sup>335</sup> In the United States of America, the Federal Trademark Dilution Act specifically exempts truthful comparative advertising from the dilution law. See Chapter 4.7.3 “Exceptions to Liability under the Act” *supra*. The European Union has also issued a Directive on Comparative Advertising 97/55/EC (amending Directive 84/450/EEC). See Welkowitz (2000) 92 fn 155 for a short outline of the relevant articles of the Directive.



But any such use otherwise than in accordance with honest practices in industrial or commercial matters shall be treated as infringing the registered trade mark if the use without due cause takes unfair advantage of, or is detrimental to, the distinctive character or repute of the trade mark.”<sup>336</sup>

This section thus permits the use of a registered trade mark in advertising material to identify a competing product as long as the use is in accordance “with honest practices in industrial or commercial matters”. If the use, however, is “without due cause and takes unfair advantage of, or is detrimental to, the distinctive character or repute of the trade mark”, there will be infringement of the trade mark.

Although the first sentence thus appears to provide a general exemption for comparative advertising, much of this protection is removed by the second sentence.<sup>337</sup> According to Welkowitz, it apparently eliminates the right to use a mark in comparative advertising if it is used contrary to “honest practices in industrial or commercial matters” and the use “takes unfair advantage of” or is “detrimental to the distinctive character or repute of the trade mark”. The last part of this section corresponds to section 10(3), the apparent dilution provision. Thus, diluting uses of a mark in comparative advertising will be allowed if the use was honest, but if dishonest will subject the user to an infringement claim. It is not clear what the legislature intended with the phrase “honest practices” and the scope of this exemption in practice remains to be seen.

Carty<sup>338</sup> pleads for a broad approach in line with the Directive and section 10(6). Any use that is not “honest”, including use which in effect dilutes the mark should be prevented. This is also in line with the modern function of trade marks as advertising or promotional tools, “assets in their own right”, as she calls them. Thus only truthful and informative advertising that draws on a comparison should be allowed.

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<sup>336</sup> This section is not derived from the Directive referred to in the previous footnote.

<sup>337</sup> See Welkowitz (2000) 91 for the interpretation of s 10(6).

<sup>338</sup> Carty (2002) 297-299.



### 5.7.2.7 LOOKALIKES IN THE UK

Lookalike products normally not only concern the trade mark, but the whole trade dress, which is the overall visual appearance of the product.<sup>339</sup> Two types of lookalike products are normally found in the market, namely products put on the market by rival manufacturers and retailers' own-brand lookalikes. The single purpose of putting a lookalike on the market is mostly to trade on the reputation of the well-known trade dress.<sup>340</sup> The signs used are usually slightly different from the registered marks. Only certain images are taken and used together with retailers' own logos or names, or both.<sup>341</sup> Thus, although there are differences in appearance the distinctive character and overall combination of the unique appearance of the original product, normally the brand leader, are in most cases slavishly copied.<sup>342</sup> Still there is most often no confusion with the genuine product. However, because of their similarity the public buy the lookalike products on the assumption that they will have the same properties as the genuine goods. The association made by the public dilutes the integrity of the genuine marks<sup>343</sup> and damages the distinctiveness and commercial magnetism of the famous trade dress. This loss of distinctiveness is permanent and irretrievable.

Passing off is the form of action most often relied upon in connection with lookalikes.<sup>344</sup> This protection is, however, inadequate and even rendered meaningless, because of the requirement of relevant confusion,<sup>345</sup> the cost and unpredictability of the action, difficulty to prove reputation and damage and fear of retaliation by the offending retailers against

<sup>339</sup> Mostert FW "Famous Trade Dress: Dilution on Competing Products" (March 1997) *Trademark World* 20.

<sup>340</sup> Mostert (1997) 24.

<sup>341</sup> Annand (1996) 155 describes these own-brand lookalikes as "sly copies of brand leaders".

<sup>342</sup> See Mostert (1997) 21.

<sup>343</sup> Johnson C "Case Comment: European Court of Justice: *Marca Mode v Adidas*: A Trademark Loophole" (August 2000) *Trademark World* 6.

<sup>344</sup> See the *Jif Lemon* case: *Reckitt & Colman Products Ltd. v Borden Inc.*, [1990] R.P.C. 341, where the passing-off claim was upheld on the basis of a likelihood of confusion.

<sup>345</sup> Mostert (1997) 22. "The traditional touchstone of liability in trademark and trade dress cases, likelihood of confusion, may have become inadequate to provide an appropriate level of sufficient protection with the passage of time."



the aggrieved party's product(s).<sup>346</sup> Campaigns for the inclusion in the 1994 Act of specific protection against lookalikes, were rejected.<sup>347</sup>

Mostert is strongly of the view that the traditional likelihood of confusion standard has become insufficient to protect the distinctiveness and commercial magnetism of famous trade dress. As the dilution action basically protects the distinctiveness and commercial magnetism of a trade mark, he sees it as the most appropriate means of protecting trade dress in lookalike cases.<sup>348</sup> He is in favour of recognising a dilution action in respect of competing goods as this is in keeping with the reality of the marketplace. He says that "a famous mark can be as detrimentally affected by damage to its distinctiveness and commercial magnetism on competing products as it may be on non-competing goods or services".<sup>349</sup>

The only relevant infringement provision in the 1994 Trademarks Act is section 10(2)(b), as lookalikes by definition involve the use of a similar mark on the same or similar goods. The widest interpretation of similarity is necessary to have effective trade-mark protection against own-brand lookalikes. As there is rarely confusion between the lookalike products, the interpretation given to "likelihood of association" in the *Wagamama* case as requiring origin-based confusion, led to the situation that brand owners have no statutory protection against such use of their trade marks.<sup>350</sup> But if the judgments of the CJEC in *Davidoff v Gofkid* and *Adidas v Fitnessworld*<sup>351</sup> are accepted as law in the UK, which will probably happen as the United Kingdom has no choice, protection against lookalikes will fall under section 10(3).

<sup>346</sup> Annand (1996) 161, 167, 172.

<sup>347</sup> Annand (1996) 143.

<sup>348</sup> Mostert (1997) 20, 22-23.

<sup>349</sup> Mostert (1997) 23. See also *Sunbeam Products Inc. v. West Beach Co.*, 39 U.S.P.Q.2d 1545 (S.D. Miss. 1996) and *Clinique Laboratories Inc. v. DEP Corporation d/b/a Basique Labs Inc.*, (S.D.N.Y. 1996), two US cases dealing with the dilution of famous trade dress on competing products.

<sup>350</sup> See also Mostert (1997) 25.

<sup>351</sup> Case C-292/00, *Davidoff & Cie and Zino Davidoff SA v Gofkid Ltd.*, 9 January 2003; Case C-408/01, *Adidas-Salomon A.G., formerly Adidas A.G., Adidas Benelux B.V. v Fitnessworld Trading Ltd.*, 23 October 2003. See further Chapter 5.7.2.4 "Cases on Section 10(3)" *supra* and Chapter 5.8.2 "The Interpretation of Article 5(2)" *infra*.



## 5.8 JUDGMENTS OF THE COURT OF JUSTICE OF THE EUROPEAN COMMUNITIES (CJEC)

### 5.8.1 THE INTERPRETATION OF ARTICLES 4(1)(b) AND 5(1)(b)

The interpretation of article 5(1)(b)<sup>352</sup> of the European Directive led to much debate. Its wording is regarded as illogical because the likelihood of association, which is a broader concept than likelihood of confusion, is referred to as being contained within the concept of likelihood of confusion.<sup>353</sup> It was believed that, given the background to the inclusion of this wording in the Directive, the Benelux interpretation would be relevant.<sup>354</sup> As seen above, the English Chancery Division in the *Wagamama* case refused to accept that likelihood of association could be present where there is no confusion as to origin. The interpretation of this phrase by the CJEC would therefore be very important and it was hoped that the CJEC would resolve the debate in European law as to what "likelihood of association" means.<sup>355</sup> The CJEC, as will be seen, has decided not to apply the concept as broadly as the Benelux Court tends to do.<sup>356</sup>

In the case of *SABEL B.V. v Puma A.G.*<sup>357</sup> the CJEC was asked by the German Federal Court of Justice to interpret the phrase "likelihood of association". It was seen as an attempt to establish a uniform interpretation of the notions of similarity and likelihood of confusion within the meaning of the Directive.<sup>358</sup> The Directive was implemented in

<sup>352</sup> See Chapter 5.5.3 "Dilution Provisions" *supra* for the wording of art. 5 of the Directive. A similar provision is found in art. 4(1)(b), which deals with refusal of registration of a trade mark by reason of a prior registration. Art. 5(1)(b) describes the exclusive rights of a registered trade-mark owner. The CJEC stated in the *Adidas* case, discussed *infra* in this section, that its interpretation of art. 4(1)(b) also applies to art. 5(1)(b).

<sup>353</sup> Davies (1998) 5. Schmidt (2002) 463 finds it "logical enough", as it means that something more is needed to establish "likelihood of confusion" than "likelihood of association" in the strict sense. He believes that the mere association of two marks cannot in itself constitute infringement.

<sup>354</sup> See Chapter 5.5.4 "Influence of the Benelux Law" *supra*.

<sup>355</sup> The concept of "association" is subjective, meaning that every consumer associates different things with each other. See Schmidt (2002) 463.

<sup>356</sup> Schmidt (2002) 463.

<sup>357</sup> Case C-251/95, *SABEL B.V. v Puma A.G., Rudolf Dassler Sport* [1997] E.C.R. I-6191; [1998] E.T.M.R. I. (Judgment of 11 November 1997). See also Davies (1998) 580-582 for a discussion of the case.

<sup>358</sup> Morgan R "Recent Trademark Decisions of the European Court of Justice" (May/June 1998) *Trademark World* 42 at 45.



Germany by the *Gesetz über den Schutz von Marken und sonstigen Kennzeichen*<sup>359</sup> in 1994. Although the case particularly concerned article 4(1)(b) of the Directive (section 9(1)(2) of the German Act) stating the grounds for refusal or invalidity of a registration, it makes no difference as it contains the same wording as article 5(1)(b) dealing with rights conferred by a trade mark.<sup>360</sup>

The facts of the case were as follows. PUMA was the registered owner in Germany of two trade marks for, *inter alia*, leather and imitation leather goods and clothes, consisting of device marks of the silhouettes of, respectively, a bounding puma and a leaping puma. SABEL, a Dutch company, then applied for the registration of their trade mark in Germany. Their trade mark consisted of a spotted cat-like animal, probably a cheetah, also bounding towards the right, with the word "SABEL" written underneath. The application was in a number of classes, but included both the classes for leather products and clothing. PUMA naturally opposed SABEL's application. The German Patent Office (*Deutsches Patentamt*) concluded that there was no similarity between the two marks and thus rejected the objection. PUMA appealed to the German Federal Patent Court (*Bundespategericht*), where it was held that there was a resemblance between the two marks and that the goods were also identical or similar. SABEL then appealed to the Federal Court of Justice (*Bundesgerichtshof*), which provisionally ruled that there was no risk of confusion between the two marks.<sup>361</sup>

The court applied the following criteria, being established principles of German trade-mark law, in order to reach their decision: The court must focus on the overall impression of the signs. Although it is possible to take particular distinctive characters into account, it is not permissible to isolate an element of the signs or marks. The more distinctive the character of the mark, the greater the likelihood of confusion. Strict criteria must be

<sup>359</sup> Law on the Protection of Trade Marks and Other Signs of 25 October 1994 (BGBl I, p3082) art. 4(1)(b).

<sup>360</sup> Essentially identical provisions are found in art. 8(1)(b) and art. 9(1)(b) of Council Regulation (EC) No40/94 of 20 December 1993 on the Community Trade Mark (OJ 1994 L 11, p1).

<sup>361</sup> Case C-251/95, *SABEL B.V. v Puma A.G., Rudolf Dassler Sport* [1997] E.C.R. I-6191; [1998] E.T.M.R. 1. (Judgment of 11 November 1997) par 4-5.



applied with respect to the likelihood of confusion between pictorial components, which are basically descriptive and have little imaginative content.<sup>362</sup>

The court, however, decided to stay the proceedings and referred the following two questions to the CJEC for a preliminary ruling in order to establish a uniform interpretation of the European Directive:

1. "[I]s it sufficient for a finding that there is a likelihood of confusion between a sign composed of text and picture and a sign consisting merely of a picture, which is registered for identical and similar goods and is not especially well known to the public, that the two signs coincide as to their semantic content (in this case, a bounding feline)?"
2. What is the significance in this connection of the wording of the Directive, in terms of which the likelihood of confusion includes the likelihood that a mark may be associated with an earlier mark?"<sup>363</sup>

The questions were interpreted by the court as to be whether the mere association, which the public might make between the two marks, can be a sufficient ground for concluding that there exists a likelihood of confusion within the meaning of the relevant provision.

Advocate General FG Jacobs came to the following conclusion in his Opinion, presented to the court.<sup>364</sup> The likelihood of association with an earlier mark is a *factor* to be taken into account, but registration of a mark cannot be refused unless "it is established that there is a genuine and *properly substantiated likelihood of confusion about the origin* of the goods...".<sup>365</sup> The mere fact that the one mark will bring the other to mind and that the public will thus associate the two marks, is not enough reason to refuse a registration. The idea behind a trade mark can, therefore only be protected, according to the Advocate-

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<sup>362</sup> Par 6 of the *SABEL* case.

<sup>363</sup> Par 10 of the *SABEL* case.

<sup>364</sup> Opinion of the AG in Case C-251/95, *SABEL B.V. v Puma A.G.* at the sitting of the Full Court on 29 April 1997, [1997] E.T.M.R. 283. According to Carboni A "Confusion Clarified" (1998) 3 *European Intellectual Property Review* 108, he relied, *inter alia*, on the *Wagamama* decision discussed in Chapter 5.7.2.3 "Cases on Section 10(2)" *supra* for this conclusion.

<sup>365</sup> Emphasis added.



General, if a likelihood of confusion about the origin can be established.

The Benelux countries, as expected, claimed in their submissions that the term “likelihood of association” must be construed in the same manner as article 13A of the Uniform Benelux Law on Trade Marks, as this phrase was included in the Directive on their initiative. That would mean that the court must use the concept of resemblance between marks. A resemblance is found if there is aurally, visually or conceptually a similarity between a mark and a sign such as to establish an association between them.<sup>366</sup> In the *SABEL* judgment the court referred to the Benelux interpretation of “likelihood of association” which can arise in three different situations:

1. Likelihood of direct association, where the public confuses the sign and the mark in question;
2. Likelihood of indirect confusion or association, where the public will not confuse the mark and the sign as such, but makes a connection<sup>367</sup> between the proprietors of the sign and those of the mark and *confuses them*; and
3. Likelihood of association in the strict sense, where the public considers, sometimes subconsciously, the sign to be similar to the mark and their perception of the sign calls to mind the memory of the mark, *although the two are not confused*.<sup>368</sup>

It is this last situation, which is accepted as a likelihood of association by the Benelux Court of Justice, which posed a problem for the CJEC. The Court, like the *Wagamama* court, ruled against this possibility and thus a broad reading of the provision. It stated that “likelihood of confusion” and “likelihood of association” in article 4(1)(b) are not

<sup>366</sup> See *Jullien v Verschuere* Case A 82/5 20 May 1983, Jur.1983 vol IV 36 and discussion of the Benelux law in Chapter 5.7.1.3 “‘Likelihood of Association’ in the Benelux Law” *supra*. See also Carboni (1998) 108; Norman (1998) 310.

<sup>367</sup> Gielen (1996 *TW*) 22 describes this connection as some kind of relationship, such as a licence, a merchandising or franchising agreement or a relation of sponsorship.

<sup>368</sup> Case C-251/95, *SABEL B.V. v Puma A.G., Rudolf Dassler Sport* [1997] E.C.R. I-6191; [1998] E.T.M.R. 1. (Judgment of 11 November 1997) par 16 (emphasis added). See also Gielen (1996 *TW*) 21-22; Carboni (1998) 108.



drafted in the alternative. Likelihood of association just served to define the scope of the likelihood of confusion and therefore likelihood of confusion is indispensable. The court did not however explain the way in which the scope of the likelihood of confusion is defined.<sup>369</sup> They merely found that “(t)he terms of the provision itself exclude its application where there is no likelihood of confusion on the part of the public”.<sup>370</sup> This refers to confusion as to origin. The Benelux concept of non-origin association in interpreting confusion was rejected.<sup>371</sup>

The CJEC on the other hand, did indicate that the concept of confusion itself might be broadly interpreted. The court referred to the tenth recital in the Preamble to the Directive<sup>372</sup> from which it is clear that the appreciation of the likelihood of confusion rested on various factors and must be appreciated globally.<sup>373</sup> The court then noted that the perception in the mind of the average consumer of the type of goods or services in question plays a decisive role in the global appreciation of a mark. The average consumer will normally look at the mark as a whole and pay less attention to its various details. With regard to the distinctiveness of a mark, the court then stated that the more distinctive the earlier mark, the greater the likelihood of confusion.<sup>374</sup> Thus, more well-known marks deserve stronger protection. On this point it then ruled that as the PUMA mark is not especially well known to the public and the image has little imaginative content, there is on that ground also not a possibility of confusion.<sup>375</sup>

<sup>369</sup> Gielen (1998) 109.

<sup>370</sup> Case C-251/95, *SABEL B.V. v Puma A.G., Rudolf Dassler Sport* [1997] E.C.R. I-6191; [1998] E.T.M.R. 1. (Judgment of 11 November 1997) par 18.

<sup>371</sup> It was also rejected by Advocate-General Jacobs in his Opinion on this case. See also Briggs (2000) 430; Welkowitz (2000) 80.

<sup>372</sup> “[W]hereas the likelihood of confusion, the appreciation of which depends on numerous elements and, in particular, on the recognition of the trade mark on the market, of the association which can be made with the used or registered sign, of the degree of similarity between the trade mark and the sign and between the goods or services identified, constitutes the specific condition for such protection...”.

<sup>373</sup> This was in sharp contrast with the stage-by-stage approach followed by the English courts in the *Treat* case and also in *Baywatch*. See Chapter 5.7.2.3 “Cases on Section 10(2)” *supra*. See further Davies (1998) 7; Carboni (1998) 109; Briggs (2000) 430.

<sup>374</sup> This was also a well-established rule in Benelux law, but the UK courts warned against it in the *Treat* case. See Gielen (1998) 110; Briggs (2000) 430; Welkowitz (2000) 80.

<sup>375</sup> Case C-251/95, *SABEL B.V. v Puma A.G., Rudolf Dassler Sport* [1997] E.C.R. I-6191; [1998] E.T.M.R. 1. (Judgment of 11 November 1997) par 24, 25. The CJEC relied on the German court’s finding of fact that the PUMA mark was not particularly strong. See Norman (1998) 311.



The CJEC also concluded that its interpretation of article 4(1)(b) is not inconsistent with articles 4(3), 4(4)(a) and 5(2) of the Directive.<sup>376</sup> This last statement might be controversial. Where the registered mark has a reputation and the marks and or goods are identical or similar, confusion as to origin is a requirement in terms of article 5(1)(b), as interpreted, but if the goods are dissimilar, the action can be based on section 5(2) and confusion is not a requirement. The CJEC states that there is no conflict, because the mentioned articles give the proprietor of a mark with a reputation protection against the use of an identical or similar mark, *even* when there is no similarity between the goods. According to Davies this suggests that dilution can also apply under these articles where the goods are similar, but the word “*even*” is not included in the wording of the UK Act or the Directive, which makes this interpretation unlikely. Gielen, though, sees this remark of the Court as an indication that the CJEC would probably afford protection against dilution in a case of a reputed mark if an identical sign is used for similar goods or services.<sup>377</sup> From other judgments of the CJEC it can also be seen that the court feels strongly about the protection of the reputation of a trade mark against detriment.<sup>378</sup>

The CJEC in the *SABEL* case proceeded to answer the questions of the *Bundesgerichtshof* by stating in summary that “the mere association which the public might make between two trade marks as a result of their analogous semantic content is not in itself a sufficient ground for concluding that there is likelihood of confusion within the meaning of that provision”.<sup>379</sup> This conclusion is then against the background that the PUMA mark does not have any distinguishing power. According to Gielen, given the facts, this would

<sup>376</sup> Par 20, 21 of the *SABEL* case.

<sup>377</sup> Davies (1998) 583; Gielen (1998) 111. See Case C-292/00, *Davidoff & Cie and Zino Davidoff SA v Gofkid Ltd.*, 9 January 2003 (unreported), discussed in Chapter 5.8.2 “The Interpretation of Article 5(2)” *infra*.

<sup>378</sup> Case C-337/95, *Dior v Evora* and Case C-349/95, *Loendersloot v Ballantine*, quoted by Gielen (1998) 110. Both cases dealt with the exhaustion rule and thus concerned identical goods. See Chapter 2.1 “Origin or Source Function” and especially fn 51 and accompanying text *supra* for a description of the exhaustion rule.

<sup>379</sup> Case C-251/95, *SABEL B.V. v Puma A.G., Rudolf Dassler Sport* [1997] E.C.R. I-6191; [1998] E.T.M.R. 1. (Judgment of 11 November 1997) par 26. See also Vuk (1998) 864-865 fn 16; Casey (May 2000) 24.



probably also has been the finding of the BCJ.<sup>380</sup>

The CJEC's interpretation of the concept of "likelihood of association" is therefore that it forms part of the likelihood of confusion. Mere association is not a criterion for infringement.<sup>381</sup> However, the concept of likelihood of confusion can be seen as a broad one. The CJEC did not follow the very narrow interpretation of Justice Laddie in *Wagamama* and Advocate-General Jacobs, which both referred to confusion as to origin.<sup>382</sup> Their interpretation goes beyond this traditional view and even leaves room to take into account other functions of a trade mark.<sup>383</sup> This acceptance of a broader concept of confusion can be seen in the fact that the court makes no reference to origin and also does not mention direct or indirect confusion.<sup>384</sup> The similarity between the marks mainly depends on their appearance, but there can also sometimes be phonetic similarity in which case the pronunciation in all languages in the Union must be taken into account. To judge the similarity of the goods, the following factors may be relevant: the sources of production, the sales and distribution channels, the market and customers, as well as the use and interchangeability of the products. The likelihood of confusion must thus be appreciated globally, taking into account all factors relevant to the specific case. This seems to be in line with the famous judgment of the BCJ in the *Union Soleure* case.<sup>385</sup>

According to Davies<sup>386</sup> the ruling of the court was less clear than was hoped for. This notion is also echoed by Norman,<sup>387</sup> who sees the case as a disappointment, in the sense of what was left unsaid. The court, for example, did not comment on whether the

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<sup>380</sup> Gielen (1998) 110.

<sup>381</sup> See Gielen (1998) 110 who indicated that mere association was also not sufficient under the Benelux law, as other circumstances of the case, such as the distinctive power, meaning the repute of the mark, must also be taken into account.

<sup>382</sup> Gielen (1998) 109.

<sup>383</sup> Davies (1998) 41, 153.

<sup>384</sup> According to Norman (1998) 311 the court "does *not* say that likelihood of confusion means *only* origin confusion".

<sup>385</sup> See Gielen (1998) 110 and also the discussion of the Benelux law in Chapter 5.7.1.3 "Likelihood of Association' in the Benelux Law" *supra*.

<sup>386</sup> Davies (1998) 7.

<sup>387</sup> Norman (1998) 306, 311-312.



Benelux law is in line with the Directive or not. These weaknesses will definitely hamper the Union's plans for harmonisation.<sup>388</sup> As the decision lends credibility to both the Benelux and UK view, different countries can interpret the judgment differently in a manner consistent with their own view as to the functions of a trade mark. This could lead to the situation where the United Kingdom continues to use the test formulated in *British Sugar v James Robertson* for section 10(2) cases, while the German courts, as well as the Benelux courts, would follow the global approach to similarity formulated in the *SABEL* case.<sup>389</sup> The UK courts, however, in the *Pfizer* case also turned to the global appreciation test.<sup>390</sup>

Carboni sees the outcome of the case as a victory for the United Kingdom,<sup>391</sup> but also noted at the same time that the court left the door open for owners of famous or otherwise very distinctive marks to obtain protection under this provision. Gielen seems to be even more positive and sees this case as offering quite a few starting points for the future protection of trade marks.<sup>392</sup> His summary of the judgment is that mere conceptual similarity will not be enough to find likelihood of confusion in the case of less reputed marks, but that the court left room for far-reaching protection of reputed marks.<sup>393</sup> This he views as "a fair protection of trade marks".

The next significant case before the CJEC on this subject was *Canon v Pathe*.<sup>394</sup> The case concerned the use of the mark CANON on video film recorders compared to the use of the sign CANNON on video film cassettes. The German court assumed that the mark

<sup>388</sup> As explained in Chapter 5.4.2 "Composition and Functions" *supra*, the role of the CJEC is to give guidance as to the interpretation of the Treaty, but it is then left to the national court to apply such an interpretation to the specific case before it. The CJEC did, therefore, not act in breach of its responsibilities.

<sup>389</sup> Norman (1998) 312. The *British Sugar* (or *Treat*) case is discussed in Chapter 5.7.2.3 "Cases on Section 10(2)" *supra*.

<sup>390</sup> Also discussed in Chapter 5.7.2.3 "Cases on Section 10(2)" *supra*.

<sup>391</sup> Carboni (1998) 109. Norman (1998) 311 also noted that this seems to be the first impression that one gets from the case.

<sup>392</sup> Gielen (1998) 109, 111.

<sup>393</sup> Gielen (1998) 109, 111. See also the conclusion of Norman (1998) 311.

<sup>394</sup> Case C-39/97, *Canon Kabushiki Kaisha v Metro-Goldwyn-Mayer Inc. (Formerly Pathe Communications Corporation)* [1998] E.C.R. I-5507; [1999] R.P.C. 117. Like the *SABEL* case, this was also an opposition case, but the issues are analogous to s 10(2) of the UK Act.



and the sign were identical, but that the goods were not identical. The question before the German court was whether the goods were similar. The question referred to the CJEC was whether in assessing similarity of goods, account should be taken of the distinctive character of the mark.

The opinion of Advocate-General Jacobs was that the distinctiveness and reputation of an earlier mark can be taken into account in determining whether goods or services are similar. He further said that the more well-known a trade mark, the more likely it is that consumers might be confused into believing that there is a connection in trade between the goods and services which bear the same or similar mark.<sup>395</sup> Thus the likelihood of confusion should be taken into account when considering whether the goods or services are similar, rather than judging these two elements separately.

The court followed the Advocate-General's opinion and confirmed its ruling in the *SABEL* case as regards the interpretation of article 4(1)(b).<sup>396</sup> The court further decided that the distinctive character of the mark, and in particular its reputation, must be taken into account when determining whether similarity between goods covered by the two trade marks is sufficient to give rise to the likelihood of confusion.<sup>397</sup> Thus, the court here again used the single test of "global appreciation", in sharp contrast to the triple test of Justice Jacob in the *Treat* and *Baywatch* decisions.<sup>398</sup> The court confirmed that even where there was a lesser degree of similarity between the marks, there could still be confusion of the public if the earlier mark has a reputation. Thus the stronger the reputation, the wider the ambit of protection will be.<sup>399</sup> The court also confirmed the interdependence of all the relevant factors. Accordingly, a lesser degree of similarity between the goods may be offset by a greater degree of similarity between the marks, and *vice versa*.<sup>400</sup>

<sup>395</sup> See Montagnon (1998) 401.

<sup>396</sup> Turner-Kerr (2001) 49; Montagnon (1998) 401; Welkowitz (2000) 80 fn 79.

<sup>397</sup> The court cited with approval the decision in the *SABEL* case and also the tenth Recital to the Directive, quoted *supra* in the *SABEL* case.

<sup>398</sup> Discussed in Chapter 5.7.2.3 "Cases on Section 10(2)" *supra*.

<sup>399</sup> Montagnon (1998) 401.

<sup>400</sup> In this regard the CJEC, like Jacob J in *British Sugar*, referred to the tenth Recital of the Preamble of the Trademark Directive to support their position.



According to Casparie-Kerdel the cases discussed above “may have appeared to embrace a vague notion of dilution”. She infers this from the fact that the courts recognised that marks with a greater distinctiveness and repute, should be given a broader scope of protection, as this is at the basis of the dilution theory. But the *Adidas* case, according to her, confirmed that “confusion is still at the heart of the action of articles 4 and 5 where similar goods are concerned”.<sup>401</sup> Another perspective on the “dissimilar goods” provisions is that the more restrictive the approach of a country towards determining similarity, the more restrictive the approach to the “dilution” requirements will be.<sup>402</sup>

Although some “softening of the hard-line approach” of Justice Jacob in *British Sugar* is to be welcomed, a point of criticism against this test of global appreciation as applied in the *Canon* case, is that there will be little certainty or harmonisation between the member states. As the test of similarity is linked to evidence of confusion or its likelihood, variation in what is considered as similar goods and therefore as registrable or enforceable could develop.<sup>403</sup>

In *Lloyd Schuhfabrik Meyer & Co GmbH v Klijsen Handel BV*<sup>404</sup> the question before the CJEC was whether it is sufficient for there to be a likelihood of confusion based solely on the aural similarity between the mark LOINT’s and LLOYD, both used on shoes. Here again, based on its *SABEL* and *Canon* decisions, the court said that the likelihood of confusion must be appreciated globally taking into account all factors relevant to the circumstances of the case. A lesser degree of similarity between the goods may be offset by a greater degree of similarity between the marks and *vice versa*.<sup>405</sup> The court referred in this context to the tenth recital in the preamble to the Directive. Furthermore, the more distinctive the earlier mark, the greater will be the likelihood of confusion. Thus, there

<sup>401</sup> Casparie-Kerdel (2001) 192. Case C-425/98, *Marca Mode C.V. v Adidas A.G. and Adidas Benelux B.V.*, [2000] E.C.R. I-4861. (Judgment of 22 June 2000).

<sup>402</sup> Montagnon (1998) 403.

<sup>403</sup> Montagnon (1998) 403, 404. She finds Jacob’s approach, “although extremely strict”, much more practical.

<sup>404</sup> Case C-342/97, *Lloyd Schuhfabrik Meyer & Co GmbH v Klijsen Handel B.V.* [1999] E.C.R. I-3819; [1999] E.T.M.R. 690.

<sup>405</sup> Par 17-21 of the *Lloyd Schuhfabrik* case.



may be a likelihood of confusion, notwithstanding a lesser degree of similarity between the marks, where the goods covered by them are very similar and the earlier mark is highly distinctive. The court came to the conclusion that it is possible that mere aural similarity between the trade marks may create a likelihood of confusion within the meaning of article 5(1)(b).<sup>406</sup>

The CJEC yet again ruled on the issue of confusion in *Marca Mode CV v Adidas AG and Adidas Benelux BI*.<sup>407</sup> Some of the statements made by the court in *SABEL* were explained in more detail and put in context. The case was referred to the CJEC by the Dutch Court. Marca started to sell T-shirts in its sports clothes collection, with three black vertical stripes running parallel down the entire front of the garments. On some garments it is broken by a medallion comprising a cat and the word TIM. Also a number of items bore two parallel stripes running longitudinally on the sides. Adidas, owner of a registered figurative mark comprising three parallel stripes for sports clothes and articles connected with sport, objected and sought interim relief to restrain Marca Mode from using the signs. The products can thus be classified as lookalike products.<sup>408</sup> The Regional Court of Appeal upheld and confirmed Adidas's application. Marca Mode appealed to the Supreme Court of the Netherlands, relying on the *SABEL* judgment of the CJEC.

The Supreme Court upheld the Regional Court of Appeal's decision. It held that where the risk of confusion could not be excluded because a mark had a particularly distinctive character, either *per se* or because of the reputation it enjoyed with the public, there may be justifiable reasons for concluding that a finding of a risk of association may be sufficient to justify a prohibition on the use of the signs in question.<sup>409</sup> The Regional

<sup>406</sup> Par 28 of the *Lloyd Schuhfabrik* case. The role of the CJEC is limited to providing the national court with the guidance on interpretation necessary to resolve the case before it. The national court must apply the rules of Community law, as interpreted by the CJEC to the facts of the case under consideration. It follows that the national court must rule on the question whether there exists between the two marks at issue a likelihood of confusion within the meaning of the Directive. See par 11 of the *Lloyd Schuhfabrik* case.

<sup>407</sup> Case C-425/98, *Marca Mode C.V. v Adidas A.G. and Adidas Benelux B.V.*, [2000] E.C.R. I-4861. (Judgment of 22 June 2000) See further the discussion of this case by Turner-Kerr (2001) 49-51.

<sup>408</sup> Johnson (2000) 8. See also discussion in Chapter 5.7.2.7 "Lookalikes in the UK" *supra*.

<sup>409</sup> Turner-Kerr (2001) 50; Welkowitz (2000) 80-81.



Court found that there was a possibility of association between the mark and the sign and that Adidas's mark had a reputation. The Supreme Court held that this possibility of association might give rise to confusion.

For clarification of the interpretation of article 5(1)(b) the Supreme Court referred a question to the CJEC. The question, in short, was whether, in the case of an especially strong mark, if the risk of association was such that the likelihood of confusion "cannot be ruled out", was article 5(1)(b) then contravened?<sup>410</sup>

Advocate-General Jacobs stated in his opinion<sup>411</sup> that, according to earlier judgments, the distinctive character of the earlier mark must be taken into account when assessing confusion. This has the result that the more well-known the mark, the greater the protection. Distinctive or well-known marks thus enjoy greater protection than less well-known marks. He however declared that there must be a "genuine and properly substantiated risk of confusion" before protection should be granted in terms of article 5(1)(b).<sup>412</sup> He gave the following two policy reasons for rejecting the Supreme Court's judgment. Firstly, interference with the free-trade principle of the EC treaty, and secondly, the essential function of a trade mark, namely to distinguish the origin of goods.

The CJEC followed the opinion of the Advocate-General. The court said that "likelihood of association" was not an alternative to "likelihood of confusion", but served to define the scope of the latter concept.<sup>413</sup> As in the *SABEL* and *Canon* cases, the Court noted that the likelihood of confusion must be appreciated globally, taking into account all relevant factors. The distinctive character of the earlier mark may thus increase the likelihood of confusion and the conceptual similarity between the mark and the sign may contribute to the creation of such a likelihood, but it "in no way implies a presumption of likelihood of

<sup>410</sup> Put in other words, if answered positively, it would mean that the likelihood of association means that a likelihood of confusion is assumed.

<sup>411</sup> Opinion of Advocate-General Jacobs delivered on 27 January 2000.

<sup>412</sup> Thus following the interpretation of the *SABEL* and *Canon* cases.

<sup>413</sup> Case C-425/98, *Marca Mode C.V. v Adidas A.G. and Adidas Benelux B.V.*, [2000] E.C.R. I-4861 par 34.



confusion resulting from the existence of a likelihood of association in the strict sense".<sup>414</sup> The Court's answer to the question posed, is that the reputation of the mark did not give grounds for presuming the existence of a likelihood of confusion simply because of the existence of a likelihood of association.<sup>415</sup>

The CJEC in the *Adidas* case therefore rejected the approach of the Benelux case law that the mere association between marks is sufficient for a finding of a likelihood of confusion in terms of the equivalent to article 5(1)(b). Likelihood of confusion can thus never be assumed. It must always be proved using the global appreciation test.

A loophole thus arises. When a third party uses the same or a similar sign on the same or similar goods and no likelihood of confusion can be proved, there is no protection under either article 5(1)(b) or article 5(2).<sup>416</sup> This situation was only to change through the 2003 decisions on article 5(2) in *Davidoff v Gofkid* and *Adidas v Fitnessworld*.<sup>417</sup>

### 5.8.2 THE INTERPRETATION OF ARTICLE 5(2)

The CJEC has only recently interpreted article 5(2) of the Trademark Directive in the cases of *Davidoff & Cie and Zino Davidoff SA v Gofkid Ltd*<sup>418</sup> and *Adidas v Fitnessworld*.<sup>419</sup> Formerly, the Court has made some *obiter* remarks on this section. In *SABEL*<sup>420</sup> and *Marca Mode v Adidas*<sup>421</sup> the CJEC stated that article 5(2) did not require the existence of a likelihood of confusion.

<sup>414</sup> Par 39 of the *Marca Mode* case.

<sup>415</sup> Par 42 of the *Marca Mode* case. Turner-Kerr (2001) 50; Welkowitz (2000) 82.

<sup>416</sup> Johnson (2000) 6.

<sup>417</sup> Cases discussed in Chapter 5.8.2 "The Interpretation of Article 5(2)" *infra*.

<sup>418</sup> Case C-292/00, *Davidoff & Cie and Zino Davidoff SA v Gofkid Ltd*, 9 January 2003.

<sup>419</sup> Case C-408/01, *Adidas-Salomon A.G., formerly Adidas A.G., Adidas Benelux B.V. v Fitnessworld Trading Ltd*, 23 October 2003.

<sup>420</sup> Case C-251/95, *SABEL B.V. v Puma A.G., Rudolf Dassler Sport* [1997] E.C.R. I-6191; [1998] E.T.M.R. 1. (Judgment of 11 November 1997) par 20.

<sup>421</sup> Case C-425/98, *Marca Mode C.V. v Adidas A.G. and Adidas Benelux B.V.*, [2000] E.C.R. I-4861. (Judgment of 22 June 2000).



Schmidt submits that although a likelihood of confusion need not to be proved under article 5(2), "some signs of its existence" must be there to show "unfair advantage". In his view, one can only take "unfair advantage" of another trade mark if "one causes a part of the public to associate the two trademarks with each other, make a connection between the two marks to such a degree that the public is puzzled of the origin or simply mistake one brand with another".<sup>422</sup> Furthermore he suggests that the term "unfair advantage" should be interpreted narrowly and with caution in order not to take the protection of marks with a reputation too far.<sup>423</sup>

In the case of *Adidas v Fitnessworld*<sup>424</sup> the CJEC gave clarity on the question of confusion in article 5(2). One of the questions referred by the Hoge Raad der Nederlanden to the CJEC in this case was basically whether a likelihood of confusion was necessary for a finding of a sufficient degree of similarity between the mark and the sign. The court first stated that article 5(2) does not require the existence of a likelihood of confusion. With reference to the *Lloyd* case,<sup>425</sup> the court repeated that "elements of visual, aural or conceptual similarity" are necessary for a finding of a degree of similarity between the mark and the sign. What is needed is that "the relevant section of the public makes a connection" between the mark and the sign or put in other words "establishes a link between them even though it does not confuse them". The court then said that this "link" must also be appreciated globally taking into account all factors relevant to the circumstances of the case.

The CJEC was also asked if the fact that the sign is viewed as an embellishment by the relevant sector of the public, would be an obstacle to the protection conferred by article 5(2). The Advocate-General, in his opinion on the case, said that if the public perceives a sign as doing no more than embellishing goods, and in no way as identifying their origin, that sign cannot be regarded as used for the purpose of distinguishing those goods. "Use

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<sup>422</sup> Schmidt (2002) 464.

<sup>423</sup> Schmidt (2002) 465. Schmidt wrote his article before the decision on article 5(2) in the *Davidoff* case.

<sup>424</sup> Case C-408/01, *Adidas-Salomon A.G., formerly Adidas A.G., Adidas Benelux B.V. v Fitnessworld Trading Ltd.*, 23 October 2003 par 24-31. The facts are set out *infra*.

<sup>425</sup> Case C-342/97, *Lloyd Schuhfabrik Meyer & Co GmbH v Klijsen Handel B.V.* [1999] E.C.R. I-3819; [1999] E.T.M.R. 690 par 25, 27.



as a trade mark”, thus for distinguishing goods or services is a prerequisite for a sign to infringe article 5(2). Therefore, according to the Advocate-General the sign was only used as embellishment or decoration and did not infringe the Adidas trade mark. This decision left the well-known Adidas brand exposed.<sup>426</sup> The CJEC answered the question differently. They stated that the fact that the sign is viewed as an embellishment by the relevant sector of the public is not in itself an obstacle, as long as the relevant sector of the public establishes a link between the sign and the mark. If, however, the national court finds as a fact that the public views the sign purely as an embellishment and does not establish any link with the registered mark, one of the conditions of the protection conferred by article 5(2) is not satisfied.<sup>427</sup> The question is how to establish “a link”? Carboni suggests that evidence of the type that is generally used to establish confusion will often still be necessary in cases under article 5(2), but it need not be “as comprehensive or as persuasive” as in cases under article 5(1)(b).<sup>428</sup>

The CJEC was asked to give a ruling on the meaning of the expression “has a reputation” in article 5(2) in the *General Motors* case.<sup>429</sup> The court concluded that “reputation” means that the mark must be known by a “significant part of the public concerned in a substantial part of that territory”. In this case “that territory” refers to the Benelux territory, meaning that the reputation may be in a part of one of the Benelux countries. General Motors had a registration for the trade mark CHEVY in particular for motor vehicles. Yplon registered the identical mark for detergents and various cleaning products. General Motors claimed dilution of their trade mark by the defendant and damage to the mark’s advertising function. The CJEC said that a sufficient degree of knowledge of the mark by the public is necessary.<sup>430</sup> The public is those concerned by

<sup>426</sup> Opinion of Advocate-General Jacobs delivered on 10 July 2003. See also McLeod C “Three Stripes and You’re Out?” (October 2003) *Trademark World* 18 at 19; Clark R & Collins N “Striping Similarity” (December 2003/January 2004) *Trademark World* 18 at 19.

<sup>427</sup> Case C-408/01, *Adidas-Salomon A.G., formerly Adidas A.G., Adidas Benelux B.V. v Fitnessworld Trading Ltd.*, 23 October 2003 par 39-41.

<sup>428</sup> Carboni A “Two Stripes and You’re Out!” (2004) 5 *European Intellectual Property Review* 229 at 233.

<sup>429</sup> Case C-375/97, *General Motors Corp. v Yplon SA*, [1998] E.C.R. I-5421; [2000] R.P.C. 572 at 578. See also Schmidt (2002) 464; Casey (June/July 2000) 12.

<sup>430</sup> They referred to the different language versions of the word “reputation” – “bekannt ist” (German); “bekend is” (Dutch); “reputation” (English); etc. The CJEC came to the conclusion that “a knowledge



the trade mark, either the public at large or a more specialised public, depending on the product. The degree of knowledge is reached when a significant part of the public concerned may possibly make "an association" between the two marks.<sup>431</sup> A reputation<sup>432</sup> in a substantial part of a Member State was then stated as to be sufficient.

Protection for the reputation of a trade mark, albeit in principle, was also recognised in other cases before the CJEC. In the case of *Dior v Evora*,<sup>433</sup> the CJEC recognised that damage done to the reputation of a trade mark could be a valid reason for the proprietor to oppose further dealings with the mark. Evora, operating a chain of cut-price pharmacies in the Netherlands, sold DIOR perfumes which were obtained by means of parallel imports. They advertised these perfumes alongside other products being sold in their shops, such as disposable nappies. Dior sued Evora for, *inter alia*, trade-mark infringement, because it was of the opinion that these advertisements did not correspond to the luxurious and prestigious image of its trade marks.

In *Davidoff v Gofkid*<sup>434</sup> the CJEC gave a wider than expected scope to article 5(2) of the Directive. Davidoff used the prestigious and high-value trade mark DAVIDOFF on *inter alia* gentlemen's cosmetics, cognac, ties, cigars, cigarettes, pipes, tobacco, related accessories and leather goods. Gofkid, a Hong Kong-based company, used the trademark DURFFEE on precious metals and their alloys and goods made from it, such as ashtrays, cigar and cigarette cases and holders and jewelry. Davidoff claimed that there was a

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threshold requirement emerges from a comparison of all the language versions of the Directive", and is also indicated by the "general scheme and purpose of the Directive".

<sup>431</sup> Case C-375/97, *General Motors Corp. v Yplon SA*, [1998] E.C.R. I-5421; [2000] R.P.C. 572 at 578. Michaels (2000) 337 comments that "association" is a concept used in art. 5(1)(b). In *SABEL* the CJEC defines "likelihood of association" as defining the scope of "likelihood of confusion". If association is thus required by the court to assess the extent of reputation, it means bringing in confusion as part of the test. It is thus not clear from the *General Motors* decision whether or not confusion is a necessary part of the enquiry.

<sup>432</sup> Casparie-Kerdel (2001) 192 describes "reputation" as an ambiguous term which further diluted the dilution concept. The effect of this term is that in the case of competing goods (art. 5(1)) the scope of protection is much more restricted than in the US, but in the case of non-competing goods (art. 5(2)) the scope is much wider than in the US. She cannot think that this was the intention of the drafters of the Directive.

<sup>433</sup> Case C-337/95, *Parfums Christian Dior v Evora B.V.*, 4 November 1997 [1998] R.P.C. 166. See the discussion in Norman (1998) 306-308; Morgan (1998) 42-44.

<sup>434</sup> Case C-292/00, *Davidoff & Cie and Zino Davidoff SA v Gofkid Ltd.*, 9 January 2003. See Morcom (2003) 279.



likelihood of confusion between the marks as Gofkid used the same script for its sign and the letters “D” and “ff” were written in the same distinctive manner as the DAVIDOFF mark. They further alleged that Gofkid deliberately took advantage of the reputation and advertising appeal of the DAVIDOFF mark and that the use of the DURFFEE mark was detrimental to the reputation of the DAVIDOFF mark, as the public does not tend to associate China with high-quality, exclusive products.

The questions referred by the *Bundesgerichtshof* to the CJEC were (1) whether the protection of article 5(2) is also available where the goods or services are identical or similar;<sup>435</sup> and (2) whether the grounds in article 5(2) are exhaustive or whether this article may be supplemented by national rules protecting well-known marks used in respect of identical or similar goods. Advocate-General Jacobs<sup>436</sup> concluded that according to the plain meaning of the words of the article, the protection of article 5(2) was not available in respect of goods or services which are identical or similar to those covered by the registration. In reliance on the seventh Recital of the Directive<sup>437</sup> he also declared that the grounds are listed in an exhaustive manner. He thus answered both questions in the negative.<sup>438</sup>

The CJEC basically rejected the opinion of the Advocate-General. The court said that in interpreting article 5(2), the overall scheme and objectives of the system of which it is a part should be taken into account, and not only its wording.<sup>439</sup> The court, however, interpreted the two questions in isolation, ignoring the seventh Recital, referred to by the

<sup>435</sup> This question was also posed to the CJEC in *Marca Mode v Adidas*, but the court then refused to answer it, as the case did not appear to involve an infringement claim within art. 5(2). See Chaudri (2001) 36. In this case the goods were partly identical and partly similar.

<sup>436</sup> Opinion delivered on 21 March 2002; [2002] E.T.M.R. 99.

<sup>437</sup> The seventh Recital states that “the grounds for refusal or invalidity ... are to be listed in an exhaustive manner, even if some of those grounds are listed as an option for the Member States which will therefore be able to maintain or introduce those grounds in their legislation”.

<sup>438</sup> The opposite view was expressed by another Advocate-General, although in a totally unrelated case. See Morcom (2003) 280.

<sup>439</sup> Case C-292/00, *Davidoff & Cie and Zino Davidoff SA v Gofkid Ltd.*, 9 January 2003 par 24. This was also suggested by Kamperman Sanders. He also believes that if protection can be granted to non-similar goods in the absence of confusion as to origin, it must also be possible in the case of similar goods. See Kamperman Sanders (1995) 70. See also Chapter 5.7.2.2 “The Proposed Interpretation of Sections 10(2) & 10(3)” *supra*.



Advocate-General.<sup>440</sup> The court concluded that well-known marks could not be given less protection in the case of identical or similar goods than in the case of non-similar goods. Well-known marks<sup>441</sup> used on identical or similar goods must therefore enjoy protection at least as extensive as where a sign is used for non-similar goods.<sup>442</sup>

Morcom questioned the conclusion reached by the court on the first question. He submits that the “clear and well-reasoned approach of Advocate-General Jacobs to the expressed words of the Directive was preferable and ought to have been followed”.<sup>443</sup>

The CJEC subsequently confirmed its interpretation of article 5(2) on this point in the case of *Adidas v Fitnessworld*.<sup>444</sup> Adidas, as stated above, is the proprietor of a device mark for a number of clothing items consisting of three vertical stripes of equal width, running parallel, that appear on the side and down the whole length of the clothing article. Fitnessworld markets fitness clothing under the name PERFETTO. On some articles a motif of two parallel stripes of equal width is applied to the side seams of the clothing. Adidas claimed that this might create a likelihood of confusion on the part of the public, since they might associate Fitnessworld’s clothing with Adidas and that Fitnessworld was thus taking advantage of the repute of the Adidas mark, which could impair the exclusivity of the Adidas mark.

The question referred by the Hoge Raad der Nederlanden (Supreme Court of the Netherlands) to the CJEC was whether article 5(2) was restricted to the case of non-

<sup>440</sup> This approach was criticised by Morcom (2003) 280.

<sup>441</sup> Carboni (2004) 231 notes that it is interesting and rather confusing that the court referred to “well-known marks” instead of marks with “a reputation” used in art. 5(2). It is accepted that “well-known” marks require a higher threshold of public recognition than those said merely to have a reputation. See Chapter 5.7.2.5 “The Key Concepts of Section 10(3) (iv) Reputation” *supra*. However, in Case C-408/01, *Adidas-Salomon A.G., formerly Adidas A.G., Adidas Benelux B.V. v Fitnessworld Trading Ltd.*, 23 October 2003 discussed *infra* the court avoided the term “well-known” and stuck to the phrase “registered mark with a reputation”.

<sup>442</sup> Case C-292/00, *Davidoff & Cie and Zino Davidoff SA v Gofkid Ltd.*, 9 January 2003 par 25, 26. The second question was not answered on the basis that it was asked by the German Court only in the event that the first question was answered in the negative.

<sup>443</sup> Morcom (2003) 280.

<sup>444</sup> Case C-408/01, *Adidas-Salomon A.G., formerly Adidas A.G., Adidas Benelux B.V. v Fitnessworld Trading Ltd.*, 23 October 2003. It is interesting to note that professor Gielen appeared on behalf of Adidas.



similar goods or whether this article could also be used in the case of similar goods where the mark's reputation was at stake. As already stated, article 5(2) refers expressly only to use of a sign "in relation to goods or services which are not similar". After the question was referred by the Hoge Raad to the CJEC, the CJEC answered the question in the affirmative in the case of *Davidoff*,<sup>445</sup> discussed above. The United Kingdom Government, however, proposed a negative answer. They submitted that a Member State is free to adopt the provision of article 5(2), which is expressly applicable where the goods and services are not similar, but that the Member State is not bound to grant the same protection also in relation to goods or services which are identical or similar.<sup>446</sup> Furthermore, they contended that it is for the national courts to interpret a provision transposing article 5(2) as they wish. Thus Member States are permitted to give protection in the case of identical or similar goods, but are not required to do so.

In this case Advocate-General Jacobs, contrary to his decision in the *Davidoff* case, held that article 5(2) should always be interpreted to mean that a trade-mark owner could oppose the use of an identical or similar sign not only in relation to goods and services that are not similar, but also in relation to goods and services that are identical or similar to those for which the trade mark was registered.<sup>447</sup>

The CJEC repeated what it said in the *Davidoff* case,<sup>448</sup> namely that the overall scheme and objectives of the system of which article 5(2) is a part should be taken into account. Thus, marks with a reputation could not be given less protection in the case of identical or similar goods than in the case of non-similar goods. Marks with a reputation used on identical or similar goods must therefore enjoy protection at least as extensive as where a sign is used for non-similar goods. In answer to the submissions of the United Kingdom,

<sup>445</sup> Case C-292/00, *Davidoff & Cie and Zino Davidoff SA v Gofkid Ltd.*, 9 January 2003. See Case C-408/01; *Adidas-Salomon A.G., formerly Adidas A.G., Adidas Benelux B.V. v Fitnessworld Trading Ltd.*, 23 October 2003 par 14.

<sup>446</sup> *Adidas-Salomon A.G., formerly Adidas A.G., Adidas Benelux B.V. v Fitnessworld Trading Ltd.*, 23 October 2003 par 17.

<sup>447</sup> See McLeod (2003) 18.

<sup>448</sup> Case C-292/00, *Davidoff & Cie and Zino Davidoff SA v Gofkid Ltd.*, 9 January 2003 par 24 -26. See *Adidas-Salomon A.G., formerly Adidas A.G., Adidas Benelux B.V. v Fitnessworld Trading Ltd.*, 23 October 2003 par 19.



the court ruled that the Member State's option "relates to the principle itself of granting greater protection to marks with a reputation, but not to the situations covered by that protection when the Member State grants it". The national court must interpret its national law "in the light of the wording and the purpose of the directive".<sup>449</sup>

Although the interpretation of the CJEC of article 5(2) fills a gap in the protection of marks with a reputation, by expanding the protection offered in the case of non-similar goods to identical as well as similar goods, the implementation of this decision by national courts will not necessarily be that easy. As Carboni indicated,<sup>450</sup> it can be quite difficult for a judge used to construing ambiguities in legislation, to insert added matter which was clearly not intended or understood to be there by Parliament when the legislation was enacted.

Article 9(1)(c) of the Community Trade Mark Regulation uses identical wording to article 5(2), with the difference that the Regulation has direct effect in the Member States. Thus, in the case of a trade mark registered as a community trade mark the CJEC will definitely have to apply the *Davidoff* and *Adidas* decisions.

## 5.9 SYNOPSIS

The first traces of dilution protection in Europe are found in the ODOL case decided in 1924 in Germany,<sup>451</sup> while the first statutory dilution protection is found in the 1971 Uniform Benelux Trade Marks Act passed by the Benelux Countries.<sup>452</sup>

The European Economic Community, now the European Union, was formed in 1957 with the purpose of furthering political and economic integration of the Member States.

<sup>449</sup> *Adidas-Salomon A.G., formerly Adidas A.G., Adidas Benelux B.V. v Fitnessworld Trading Ltd.*, 23 October 2003 par 20-21.

<sup>450</sup> Carboni (2004) 232.

<sup>451</sup> Civil Court, Elberfeld, 25 *Juristische Wochenschrift* 502; XXV *Markenschutz Und Wettbewerb* 264, 11 September 1925 (Germany). See Chapter 5.3 "Early Origins of Dilution in Europe" *supra*.

<sup>452</sup> See Chapter 5.7.1 "Benelux Law" *supra*.



Directives such as the Trademark Directive are issued and then integrated by Member States in their national laws. The Trademark Directive was finally adopted on 21 December 1989. Member States must give protection against infringing uses of a trade mark that cause a likelihood of confusion directly or through a likelihood of association. Furthermore, they may provide protection against infringing uses which take unfair advantage of, or are detrimental to, the distinctive character or repute of the trade mark.<sup>453</sup> It is clear that these provisions were heavily influenced by Benelux law. From 1 April 1996 it is also possible to register a Community trade mark in terms of the Community Trade Mark Regulation. In effect an exclusive right covering the whole territory of the European Union can be obtained on the basis of one registration. The optional provision in the Trademark Directive mentioned above was included as mandatory in the Community Trade Mark Regulation.<sup>454</sup>

In the Benelux countries protection against dilution has been granted since 1971 under article 13A of the Uniform Benelux Trade Marks Act.<sup>455</sup> The concept of "risk of association" was born in the famous *Union v Union Soleure* case.<sup>456</sup> The court decided that similarity of marks can be determined by taking into account the particular circumstances of a case, for example the distinctive power of the mark, whether the mark and the sign, compared as a whole and in correlation, show such a resemblance phonetically, visually or conceptually that by this resemblance alone *associations* between the sign and the mark arise. Both articles 13A(1) and (2) were believed to give protection against dilution. Article 13A(1) was applicable in the case of "any use" in relation to identical or similar goods and article 13A(2) in the case of "any other use", interpreted to mean use of an identical or similar sign for dissimilar goods, also use for purposes other than to distinguish the goods, for example use in comparative advertising, or use of a trade name or slogan or use in the media. The most famous case decided

<sup>453</sup> Art. 5(1) & (2). See Chapter 5.5.3 "Dilution Provisions" *supra*.

<sup>454</sup> Art. 8(5). See Chapter 5.6 "The Community Trade Mark" *supra*.

<sup>455</sup> See Chapter 5.7.1 "Benelux Law" *supra*.

<sup>456</sup> *Union/Union Soleure*, Benelux Court of Justice, 20 May 1983 [1984] N.J. 72; [1984] B.I.E. 137. See Chapter 5.7.1.3 "'Likelihood of Association' in the Benelux Law" *supra*.



under article 13A(2) was the *Claeryn/Klarein* case,<sup>457</sup> where the court found that the use of the KLAREIN trade mark for all-purpose cleanser diluted the CLAERYN mark for gin.

The Benelux law was not really altered by the Trademark Directive. In the *Always/Regina* case<sup>458</sup> it was confirmed that in cases involving similar products, the association criterion remains part of Benelux law. In cases concerning dissimilar products some change was needed as the Directive requires a mark to have a reputation and damage was described as occurring through uses that damage the distinctive character or repute of the mark.

The Benelux law, therefore, considered to be one of the most modern trade-mark laws in the world, offers a broad infringement criterion, which is based on the modern approach to the functioning of trade marks.

The United Kingdom adopted a new Trade Marks Act in 1994 in compliance with the Trademark Directive. Section 10(2) and (3) of the Act corresponds to article 5(1)(b) and (2) of the Directive. In section 10(2) the issues which have arisen concern the interpretation of "likelihood of association", the test for "likelihood of confusion" and the definition of "similar". "Likelihood of association" was first interpreted in the *Wagamama* case.<sup>459</sup> The court found that protection could not be extended to situations where confusion as to source of origin is not present and thus denied dilution protection on the wording of section 10(2). The test for "likelihood of confusion" was formulated in the *Treat* case<sup>460</sup> as a three-stage test where the similarity of marks and likelihood of confusion were seen as separate and distinct questions. However, in the *Pfizer* case<sup>461</sup> the

<sup>457</sup> *Colgate-Palmolive B.V. v NV Koninklijke Distilleerderijen Erven Lucas Bols*, BCJ 1 March 1975 [1975] N.J. 472. See Chapter 5.7.1.5 "Section 13A(2) of the Uniform Benelux Trade Marks Act" *supra*.

<sup>458</sup> *Regina v Procter & Gamble*, Court of Appeal Brussels 27 May 1993, I.E.R. 1993, 112. See Chapter 5.7.1.6 "Influence of the Trademark Directive on Benelux Law" *supra*.

<sup>459</sup> *Wagamama Ltd v City Centre Restaurants plc.*, [1995] F.S.R. 713; [1996] E.T.M.R. 23. See Chapter 5.7.2.3 "Cases on Section 10(2)" *supra*.

<sup>460</sup> *British Sugar plc. v James Robertson & Sons Ltd.*, [1996] R.P.C. 281. See Chapter 5.7.2.3 "Cases on Section 10(2)" *supra*.

<sup>461</sup> *Pfizer Ltd. & Another v Eurofood Link (UK) Ltd.*, High Court of Justice, Chancery Division, 10 December 1999. See also *Premier Brands v Typhoon Europe Ltd.*, High Court of Justice, Chancery



court turned away from this approach and followed the “global appreciation” test laid down by the CJEC in the *SABEL* and *Canon* cases. It seems generally accepted that the more distinctive the mark, the greater the likelihood of confusion. It also appears that the protection of section 10(2) can be stretched to cover even situations where the goods are quite dissimilar, as long as there is a likelihood of confusion, which includes a broad range of conduct.

In section 10(3) there are also a few key concepts that need to be interpreted. In one of the first cases on section 10(3), *Baywatch*,<sup>462</sup> the court found that this provision offered no protection to a mark in the absence of a likelihood of confusion. This decision was not followed in the *Pfizer* and *Premier Brands* cases,<sup>463</sup> where it was concluded that proof of a “likelihood of confusion” was not necessary under section 10(3). Section 10(3), on its plain wording, is only applicable in the case of non-similar goods. However, the CJEC interpreted the corresponding article in the Trademark Directive as also applicable in the case of identical or similar goods. In terms of the *Adidas v Fitnessworld* case<sup>464</sup> the United Kingdom must give protection “at least as extensive for identical or similar goods or services as for non-similar goods or services”. Other key concepts, such as “use in the course of trade”, “without due cause”, “unfair advantage or detriment”, “reputation” and “distinctive character or repute” were also discussed above in this chapter.<sup>465</sup>

The CJEC has interpreted article 5(1)(b) and 5(2) of the Trademark Directive, which, as stated above, corresponds to section 10(2) and 10(3) of the United Kingdom Act. In the

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Division, 21 January 2000 (2000) 23(5) IPD; [2000] F.S.R. 767; *DaimlerChrysler A.G. v Javid Alavi (t/a Merc)*, [2001] R.P.C. 813 at 838.

<sup>462</sup> *Baywatch Productions Co. Inc. v Home Video Channel Ltd.*, [1997] F.S.R. 22. See Chapter 5.7.2.4 “Cases on Section 10(3)” *supra*.

<sup>463</sup> *Pfizer Ltd. & Another v Eurofood Link (UK) Ltd.*, High Court of Justice, Chancery Division, 10 December 1999; *Premier Brands v Typhoon Europe Ltd.*, High Court of Justice, Chancery Division, 21 January 2000 (2000) 23(5) IPD; [2000] F.S.R. 767. See also *DaimlerChrysler A.G. v Javid Alavi (t/a Merc)*, [2001] R.P.C. 813 at 838; *Corgi TM* [1999] R.P.C. 549; *CA Sheimer (M) SDN BHD's Trade Mark Application* [2000] R.P.C. 484 at 504.

<sup>464</sup> Case C-408/01, *Adidas-Salomon A.G., formerly Adidas A.G., Adidas Benelux B.V. v Fitnessworld Trading Ltd.*, 23 October 2003 par 20-22.

<sup>465</sup> See Chapter 5.7.2.5 “The Key Concepts of Section 10(3)” *supra*.



*SABEL* case<sup>466</sup> the court concluded that the phrase “likelihood of association” just served to define the scope of the likelihood of confusion, which in turn must be appreciated globally. The mere association which the public might make between two marks, is not in itself a sufficient ground for concluding that there is a likelihood of confusion. The court thus rejected the Benelux point of view. The global appreciation test was also accepted by the CJEC in the *Canon* case.<sup>467</sup> The court stated that the distinctive character and reputation of a mark must be taken into account when determining whether similarity between goods covered by the two trade marks in issue is sufficient to give rise to the likelihood of confusion.<sup>468</sup>

The CJEC decided two important cases on article 5(2). In *Adidas v Fitnessworld*<sup>469</sup> the court stated that article 5(2) does not require the existence of a likelihood of confusion. The relevant public must however establish a link between the mark and the sign for a finding of similarity. This link must be appreciated globally. The meaning of reputation was addressed in the *General Motors* case,<sup>470</sup> where the court concluded that reputation means that the mark must be known by a significant part of the public concerned in a substantial part of a Member State.

The most significant ruling of the CJEC was on the scope of article 5(2). In *Davidoff v Gofkid*<sup>471</sup> the court concluded that in the light of the overall scheme and objectives of that part of the Directive, marks with a reputation used on identical or similar goods must

<sup>466</sup> Case C-251/95, *SABEL B.V. v Puma A.G., Rudolf Dassler Sport* [1997] E.C.R. I-6191; [1998] E.T.M.R. 1. (Judgment of 11 November 1997). See Chapter 5.8.1 “The Interpretation of Articles 4(1)(b) and 5(1)(b)” *supra*.

<sup>467</sup> Case C-39/97, *Canon Kabushiki Kaisha v Metro-Goldwyn-Mayer Inc. (Formerly Pathe Communications Corporation)* [1998] E.C.R. I-5507; [1999] R.P.C. 117.

<sup>468</sup> See also Case C-342/97, *Lloyd Schuhfabrik Meyer & Co GmbH v Klijsen Handel B.V.* [1999] E.C.R. I-3819; [1999] E.T.M.R. 690; Case C-425/98, *Marca Mode C.V. v Adidas A.G. and Adidas Benelux B.V.*, [2000] E.C.R. I-4861.

<sup>469</sup> Case C-408/01, *Adidas-Salomon A.G., formerly Adidas A.G., Adidas Benelux B.V. v Fitnessworld Trading Ltd.*, 23 October 2003. See Chapter 5.8.2 “The Interpretation of Article 5(2)” *supra*.

<sup>470</sup> Case C-375/97, *General Motors Corp. v Yplon SA*, [1998] E.C.R. I-5421; [2000] R.P.C. 572.

<sup>471</sup> Case C-292/00, *Davidoff & Cie and Zino Davidoff SA v Gofkid Ltd.*, 9 January 2003.



enjoy protection at least as extensive as where a sign is used for non-similar goods. The same conclusion was reached in the case of *Adidas v Fitnessworld*.<sup>472</sup>

The position in the European Union is thus that a very broad scope of protection against trade-mark dilution is given to marks with a reputation, regardless of confusion and whether the mark is used on identical, similar or non-similar goods. The phrase “takes unfair advantage of, or is detrimental to, the distinctive character or repute of the mark” has not yet been interpreted by the CJEC.

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<sup>472</sup> Case C-408/01, *Adidas-Salomon A.G., formerly Adidas A.G., Adidas Benelux B.V. v Fitnessworld Trading Ltd.*, 23 October 2003.



## CHAPTER 6

### THE SOUTH AFRICAN SITUATION

#### 6.1 HISTORY OF THE SOUTH AFRICAN TRADE-MARK LEGISLATION

Statutory developments in South Africa closely followed those in the United Kingdom. Legislation for the establishment of a Register of Trade Marks, modelled on the 1875 Act of the United Kingdom, was introduced in the Cape Colony in 1877, Natal in 1885 and in the Transvaal (South African Republic) in 1892. In the Orange Free State a Register of Trade Marks was also created by legislation.<sup>1</sup>

After the formation of the Union of South Africa, the provincial enactments were replaced by The Patents, Designs, Trade Marks and Copyright Act 9 of 1916. This Act was in essence identical to the British Act of 1905. A central Trade Marks Office and Register of Trade Marks were introduced. Amendments, making provision for registered users and permitting assignments without goodwill were introduced in 1947.<sup>2</sup> After recommendations by the Chowles Committee, the Trade Marks Act of 1963 was enacted.<sup>3</sup> Many of its recommendations were incorporated into the Act. In accordance with the 1938 Act of the United Kingdom, the Register was divided into Parts A and B and provision was made for defensive registrations. Further amendments were introduced by the Trade Marks Amendment Act of 1971, which *inter alia* provided for the registration of service marks and the adaptation of a few other provisions.<sup>4</sup>

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<sup>1</sup> See Webster CE & Morley GE *Webster & Page South African Law of Trade Marks, Unlawful Competition, Company Names and Trading Styles* 4<sup>th</sup> ed (1997) Butterworths Durban par 1.3 for more detail on the different colonial and pre-colonial statutes. No date is given for the legislation that created a Register of Trade Marks in the Orange Free State. There was however an amendment of that legislation in 1893.

<sup>2</sup> The Patents, Designs and Trade Marks Amendment Act 19 of 1947. These amendments corresponded to those in the British Act of 1938. See Webster & Page (1997) par 1.3.

<sup>3</sup> Act 62 of 1963.

<sup>4</sup> This Act incorporated recommendations by the Schoeman Committee and came into operation on 1 January 1972. See Webster & Page (1997) par 1.3 for more detail.



International trends, such as developments in the European Union<sup>5</sup> and the implementation of the TRIPS agreement,<sup>6</sup> necessitated some amendments to statutory trade-mark law in South Africa. Trade-mark legislation was also considered to have fallen behind the requirements of trade and industry, especially when viewed in the light of the increasing recognition of trade marks as commercial assets of considerable importance and value.<sup>7</sup> After recommendations from interested parties, the Advisory Committee on Patents, Trade Marks, Copyright and Designs in 1991 drafted a new Trade Marks Bill. After further representations and revisions, the Trade Marks Act 194 of 1993 was passed by Parliament in December 1993. After the regulations were approved in April 1995, the Act came into force on 1 May 1995.<sup>8</sup>

The Act broadly followed the principles contained in the European Directive and European Regulations relating to a Community Trade Mark.<sup>9</sup> The most important deviations from the previous legislation were the abolition of the distinction between parts A and B of the Register<sup>10</sup> and of the possibility to register trade marks defensively. Statutory provisions for the protection of well-known foreign trade marks were introduced. The infringement provisions were broadened considerably, also to include protection against the dilution of a trade mark,<sup>11</sup> which forms the subject of this dissertation. This Act has since been amended by the Intellectual Property Laws Amendment Act 38 of 1997.<sup>12</sup>

<sup>5</sup> See Chapter 6.3.3 "The Influence of the United Kingdom and European Law" *infra*.

<sup>6</sup> Trade-Related Aspects of Intellectual Property Rights. See Chapter 6.3.4.2 "The GATT Agreement on the Trade Related Aspects of Intellectual Property Rights" *infra* for a discussion of this agreement ratified by South Africa on 5 April 1995.

<sup>7</sup> Memorandum on the Objects of the Draft Trade Marks Bill, 1992 § 51.1 at 101, Government Gazette, 30 August 1991. See also Webster & Page (1997) par 12.24.

<sup>8</sup> The regulations were proclaimed in the Government Gazette No 16373 dated 21 April 1995.

<sup>9</sup> Webster & Page (1997) par 1.3. See Chapter 5 "European Union Law" *supra* for a discussion of the law of the European Union.

<sup>10</sup> Trade marks registered in Part B of the Register will now enjoy the same status as marks formerly registered in Part A of the Register.

<sup>11</sup> See s 34(1)(c) dealing with infringement, as well as s 10(17), which provides that a trade mark diluting another trade mark is unregistrable. See the discussion of these sections in Chapter 6.4.2 "The Dilution Provisions" *infra*.

<sup>12</sup> There was a rather insignificant amendment to s 10(17). A phrase was added to make it possible for the proprietor of a registered trade mark to consent to the registration of a mark, which would probably dilute the registered mark. See also Webster & Page (1997) par 1.7 where the major amendments are briefly explained.



## 6.2 REGISTRATION OF TRADE MARKS IN SOUTH AFRICA

### 6.2.1 THE REGISTRATION PROCESS

Initially the aim of trade-mark legislation in South Africa, and throughout the world, was to create a registration system for the recording of existing rights and the facilitation of their enforcement.<sup>13</sup> Inadequacies in common law necessitated trade-mark legislation. In the absence of legislation, proprietors had to go through a long and expensive process to prove their title to a trade mark and third parties experienced immense difficulties to determine whether or not there were already vested rights relating to trade marks they wished to use.<sup>14</sup>

The Register of Trade Marks, under control of the Registrar of Trade Marks,<sup>15</sup> is kept in The Trade Marks Office, established in Pretoria. All applications for registrations and actual registrations, together with other important particulars, must be entered in the Register.<sup>16</sup> In terms of the 1993 Act there is now a single Register,<sup>17</sup> which comprises all the marks registered or deemed to be registered under both the old and the new Act. An application for registration must be made in triplicate on the prescribed form and must contain a representation of the mark.<sup>18</sup> A separate application is required for each class of goods or services and also for each separate mark.<sup>19</sup> In terms of the Nice agreement of 1957 an international classification system for trademarks, which is now adhered to by most countries in the world, including South Africa, was created.<sup>20</sup> Traditionally a trade-

<sup>13</sup> Webster & Page (1997) par 1.1.

<sup>14</sup> Webster & Page (1997) par 1.1, 1.2.

<sup>15</sup> See s 6 of the Trade Marks Act 194 of 1993.

<sup>16</sup> Webster & Page (1997) par 2.1, 2.2; s 22(1) of the Trade Marks Act 194 of 1993 and reg 21 of the Trade Marks Regulations, 1995.

<sup>17</sup> Under the repealed Act 62 of 1963 the Register was divided into Parts A and B. Under the new Act marks formerly registered in Part B of the Register are now handled in the same way as marks formerly registered in Part A. See Webster & Page (1997) par 3.24.

<sup>18</sup> S 16(1); reg 11, 13 of the Trade Mark Regulations, 1995. A specified fee must also be paid by the applicant. See sch 1 of the Trade Mark Regulations, 1995 as amended by GN 17812 published in the Government Gazette dated 28 February 1997; Webster & Page (1997) Appendix 2-20.

<sup>19</sup> S 11(1). See also reg 11; sch 2 in Webster & Page (1997) Appendix 2-30.

<sup>20</sup> Wheeldon R "Trade Mark Dilution – What is it?" Lecture notes 1 at 6. This classification is revised from time to time. The latest version is the sixth edition, published by the World Intellectual Property Organisation in 1992. See Webster & Page (1997) Sch 3 Appendix 2-37 – 2-41 for this version.



mark right was protected only for the class in which it was registered and only for the goods covered by the registration. This was changed by the possibility to register a mark defensively<sup>21</sup> and even more so by the introduction of the so-called dilution provisions in the 1993 Act.

If an applicant for registration has already applied for registration of the same trade mark in a convention country,<sup>22</sup> priority for registration may be claimed under section 63(3) of the Act. The application for registration in the Republic must be made within six months after the date on which the application was made in the convention country<sup>23</sup> and the eventual registration must be allocated the same date as the date of the first application in the convention country.<sup>24</sup>

After receipt of an application for registration, a search must be done by the Registrar amongst all registered marks and all pending applications to ascertain whether there are any marks for goods or services which may conflict with the trade mark applied for. This is done in terms of section 10, which give a list of absolute as well as relative grounds for refusal of the registration of a mark.<sup>25</sup> After consideration of the application, the Registrar can accept the application, accept it subject to certain amendments, modifications, conditions<sup>26</sup> or limitations he may deem fit, provisionally refuse it or refuse it.<sup>27</sup> After acceptance, the applicant must advertise the application as accepted once in the Patent Journal.<sup>28</sup> Any interested person may oppose the registration within a

<sup>21</sup> See the discussion in Chapter 6.2.2 "Defensive Registrations" *infra*.

<sup>22</sup> A list of convention countries appeared in GN 1559 of 1996 published in the Government Gazette. See also Webster & Page (1997) Appendix 7.

<sup>23</sup> S 63(3)(a).

<sup>24</sup> S 63(3). In accordance with reg 12 the applicant must within three months after application in the Republic, lodge with the Registrar a copy of the application in the convention country. This copy must be duly certified by the Trade Marks Office of that country.

<sup>25</sup> Reg 15(2). S 10(17) prohibits the registration of a mark that will cause the dilution of another mark. See Chapter 6.4.2 "The Dilution Provisions" *infra* for a discussion of this section.

<sup>26</sup> See, for example, s 15 "Registration subject to disclaimer" discussed in the following paragraph.

<sup>27</sup> S 16(2)-(4); reg 15(3). Written grounds for his decision can be requested if he accepted the application subject to certain amendments or conditions or refused it. The applicant has three months within which to object to the decision of the Registrar – reg 15(4), (5).

<sup>28</sup> S 17, read with reg 18(1).



period of three months from the date of the advertisement.<sup>29</sup> If the application has not been opposed and the time for notice of opposition has expired or the application has been opposed and has been granted, the Registrar must register the trade mark. The date of the lodging of the application for registration is then deemed to be the date of registration.<sup>30</sup> The applicant is then provided with a certificate of the registration.<sup>31</sup> The registration of a trade mark is valid for a period of 10 years, but may be renewed from time to time.<sup>32</sup>

If a trade mark contains matter which is not capable of distinguishing, the Registrar may accept the registration subject to certain conditions. He may in terms of section 15 require a disclaimer from the proprietor of any right to the exclusive use of such matter. It is also possible for the proprietor of a trade mark to request any time after registration that the Registrar enter a disclaimer or memorandum against the registration of the trade mark.<sup>33</sup> The purpose of a disclaimer is to define or limit the rights of the proprietor and cannot be used to enlarge the rights of the proprietor. The proprietor can for instance limit his rights to a particular area, manner of use, or use of the mark in particular colours.<sup>34</sup> It is also possible to waive the right of exclusive use of a certain word or words contained in the trade mark.

Certain amendments to the Register by the Registrar are allowed in terms of section 23.<sup>35</sup> This section however does not relate to discretionary decisions. These are dealt with in section 24.<sup>36</sup> Furthermore, the Registrar may reduce the scope of the registration in terms

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<sup>29</sup> S 21. See also reg 19.

<sup>30</sup> S 29(1); reg 21(1), (2).

<sup>31</sup> S 29(2); reg 23. See Webster and Page (1997) Sch 2 Appendix 2-24 for an example of the specified certificate.

<sup>32</sup> S 37; reg 24, 25-30. See Webster & Page (1997) Sch 2 Appendix 2-34.

<sup>33</sup> See s 23(2)(e).

<sup>34</sup> See Webster & Page (1997) par 2.4.

<sup>35</sup> Read with reg 44 (1) – (3), which lay down the procedure to be followed for an application to amend the Register.

<sup>36</sup> S 24 deals with the general discretionary power of the court and the Registrar, on application, to rectify entries in the Register.



of section 23, but cannot widen or extend it. Section 25<sup>37</sup> creates the possibility of additions or alterations to the trade mark at the request of the registered proprietor. The scope of this section is however limited as the additions or alterations must not have a substantial effect on the identity of the trade mark. Webster and Page submit that the effect of the alteration must therefore not be to broaden the scope of the registration.<sup>38</sup>

## 6.2.2 DEFENSIVE REGISTRATIONS

The possibility of registering a trade mark defensively was created in the United Kingdom Trade Marks Act of 1938.<sup>39</sup> A trade-mark proprietor of a mark comprising an invented word was hereby permitted to obtain a wider range of protection for his mark compared to the situation before the introduction of this possibility. He could therefore register his mark defensively in respect of goods in relation to which he did not himself intend to use it. The mark had to be so well known in respect of the goods for which it had been registered and was used that its use in relation to other goods would be likely to cause confusion. This section was introduced on the recommendation of the Goshen Departmental Committee.<sup>40</sup> The committee saw it as a way to provide a statutory remedy for a situation such as that in the *Eastman Photographic v Kodak Cycle* case.<sup>41</sup> This case, as stated above, is viewed by some as the origin of the dilution rationale. The plaintiff's mark KODAK used on cameras was found to have a wide repute and the court restrained the defendant from using the mark KODAK on bicycles. Another probable reason for the introduction of defensive registrations was to protect the trade-mark owner against the

<sup>37</sup> Read with reg 45 which prescribes the form of the application.

<sup>38</sup> Webster & Page (1997) par 2.9.

<sup>39</sup> 1 and 2 Geo 6 c 22 s 27. See Webster & Page (1997) par 1.2, 10.11; Blakeney M "'Well-known' Marks" (1994) 11 *European Intellectual Property Review* 481; Martino T *Trademark Dilution* (1996) Clarendon Press Oxford 96.

<sup>40</sup> Webster & Page (1997) par 1.2, 10.11 especially fn 1; Martino (1996) 96.

<sup>41</sup> *Eastman Photographic Material Co. Ltd. v. John Griffiths Cycle Corporation and Kodak Cycle Co. Ltd.* (1898) 15 R.P.C. 105. See Chapter 3.1 "The Development of Dilution as a Legal Concept" *supra*.



risk of confusion of sponsorship.<sup>42</sup> Strict requirements for defensive registrations and conservative application resulted however in limited success for this measure.<sup>43</sup>

Defensive registration was also introduced in South Africa by the Trade Marks Act 62 of 1963.<sup>44</sup> Section 53(1) provided as follows:

“[W]here the registrar is of the opinion that a trade mark registered in part A, if used in relation to goods or services other than the goods or services in respect of which it is registered, be likely to be taken as indicating a connection in the course of trade between these other goods or services and the registered proprietor, the trade mark may be registered defensively in his name for these other goods or services.”

This section does not require use or proposed use.

Defensive registrations were abandoned by the United Kingdom Trade Marks Act of 1994. It was apparent from the White Paper on the Reform of Trade Marks Law<sup>45</sup> that the defensive registration provisions were inconsistent with the European Trademark Directive and that the British Government intended to implement article 5(2)<sup>46</sup> of the Directive as a substitute for defensive registrations. Trade marks that will qualify for this protection, are described as trade marks of wide repute.

There is also no provision for defensive registrations in the South African Trade Marks Act of 1993. It is generally accepted that the need for defensive registrations fell away with the introduction of sections 34(1)(b) and, especially 34(1)(c), the dilution

<sup>42</sup> Mostert FW “Trade Mark Dilution and Confusion of Sponsorship in United States, German and English Law” (1986) 17 *International Review of Industrial Property and Copyright Law* 80 at 85.

<sup>43</sup> Mostert (1986 *IIC*) 85. Blakeney (1994) 481 also mentions the very few registrations which were made in the United Kingdom and makes the inference that this was due to the fact that defensive registrations were not popular with trade-mark owners. See also Martino (1996) 96 who comments that “the burden on the defensive applicant was even heavier than the language of section 27 suggested”.

<sup>44</sup> A good example is COCA COLA which was registered in all forty-two classes. See Schwartz D & Morfesi D “Dilution Comes of Age: the United States, Europe and South Africa” (1997) 87 *The Trademark Reporter* 436 at 457.

<sup>45</sup> Cm 1203 September 1990 par 3.17 to 3.19. See also Blakeney (1994) 482.

<sup>46</sup> This is the so-called dilution provision. See Chapter 5.5.3 “Dilution Provisions” *supra* for the wording of this subsection.



provision.<sup>47</sup> In terms of section 70(2), the savings provision, a trade mark registered in terms of section 53 of the 1963 Act is deemed to be a trade mark registered in terms of the 1993 Act. The effect of this section is to convert all defensive registrations to ordinary registrations. These registrations are vulnerable to being expunged after 1 May 2005 on the grounds of non-use, except where the proprietor started to use then for the goods or services registered.<sup>48</sup> It is submitted by Webster and Page that in instances where protection under section 53 was available to a trade mark proprietor, it should in principle be possible to obtain relief in terms of section 10(17),<sup>49</sup> which allows the registration to be refused if this would be detrimental to a registered well-known mark, even in the absence of deception or confusion.

The abandonment of defensive registrations has certain advantages, as well as disadvantages. One advantage is that the proprietor does not have to register his trade mark defensively, as section 10(17) automatically grants such protection. However, the disadvantage lies in the fact that he must first prove that his trade mark is well known in the Republic.<sup>50</sup> Another advantage is that the proprietor does not have to prove any link between the goods for which his trade mark is well known and the goods covered by the alleged infringing mark, as there is no requirement of confusion or deception. But this also emphasises another disadvantage, namely that the search process before registration will be much more intensive and costly.

### 6.2.3 REGISTRABILITY UNDER THE 1993 ACT

The requirements to which a trade mark must answer before it can be registered under the 1993 Act are contained in sections 9 and 10. These sections represent a major departure

<sup>47</sup> Naturally also its counterpart, s 10(17). See Webster & Page (1997) par 10.11, 6.26. See also *Mars Inc v Cadbury (Swaziland) (Pty) Ltd and Another* 2000 4 SA 1010 (SCA) 1014C-D.

<sup>48</sup> In terms of the savings clause in s 70(2) a defensive registration shall not be removed from the Register in terms of the provisions s 10(4) or s 27 within a period of ten years from the date of commencement of the 1993 Act, which was 1 May 1995.

<sup>49</sup> Webster & Page (1997) par 6.26. See Chapter 6.4.2 "The Dilution Provision" *infra* regarding s 10(17).

<sup>50</sup> Webster & Page (1997) par 6.26.



from the requirements for registrability under the previous Trade Marks Act.<sup>51</sup> The threshold for the registrability of a trade mark is established in section 9, whereas section 10 specifies those marks which cannot be registered.<sup>52</sup> Section 9 will be discussed in this part, while section 10 will be dealt with in Chapter 6.4.2 “The Dilution Provisions” *infra*.

Section 9 provides that:

- “(1) In order to be registrable, a trade mark shall be capable of distinguishing the goods or services of a person in respect of which it is registered or proposed to be registered from the goods or services of another person either generally or, where the trade mark is registered or proposed to be registered subject to limitations, in relation to use within those limitations.
- (2) A mark shall be considered to be capable of distinguishing within the meaning of subsection 1 if, at the date of application for registration, it is inherently capable of so distinguishing or is capable of distinguishing by reason of prior use thereof.”

This section thus requires a mark to be “capable of distinguishing”. This concept is therefore fundamental to the registrability of a trade mark. It is clear from section 9(2) that the test for registrability under the 1993 Act is a two-fold test in the alternative.<sup>53</sup> The mark should either have an inherent quality which makes it capable of distinguishing<sup>54</sup> or the mark should in fact be capable of distinguishing by reason of use prior to the application for registration.<sup>55</sup> The onus rests upon the applicant to prove that the mark is capable of distinguishing. “Capable of distinguishing” means having the

<sup>51</sup> Morley G “South Africa: When is a Trademark Capable of Distinguishing?” (1998) *Trademark World* 23 at 24. See Webster & Page (1997) par 3.26 – par 3.38 for a discussion of registrability under the 1963 South African Trade Marks Act.

<sup>52</sup> This is a comprehensive departure as previous Acts specified what *can* be registered as a trade mark. Webster & Page (1997) par 3.39.

<sup>53</sup> This two-fold test was endorsed in *Beecham Group plc. v Triomed (Pty) Ltd.* [2002] 4 All SA 193 (SCA); 2003 3 SA 639 (SCA) 650A.

<sup>54</sup> A mark is inherently capable of distinguishing when it can do the job of distinguishing without the need to educate the public that the sign is a trade mark. See *Triomed (Pty) Ltd. v Beecham Group plc.* [2001] 2 All SA 126 (T) 133d-f; 2001 2 SA 522 (T) 533D.

<sup>55</sup> This means that a mark which is 100% distinctive in fact will qualify for registration, although it would not be “adapted to distinguish” as required by the 1963 Act. “Adapted to distinguish” means that the mark has an inherent capacity to distinguish. See Webster & Page (1997) par 3.25, 3.29 for the



“ability, fitness or necessary quality” to “treat as different; differentiate”.<sup>56</sup> The distinctiveness<sup>57</sup> of a mark depends upon the message conveyed to the public and the public’s perception and understanding of that message.<sup>58</sup> The test is a purely factual one.<sup>59</sup> The capacity of the mark must therefore be determined having regard to all the relevant circumstances in a specific case.<sup>60</sup> Although the court *a quo* in *Cadbury (Pty) Ltd v Beacon Sweets & Chocolates (Pty) Ltd*<sup>61</sup> held that the meaning of the phrase “capable of distinguishing” can be determined by referring to the interpretation by the courts of the phrase “adapted to distinguish” as used in section 12(1) of the 1963 Act,<sup>62</sup> this notion was in effect rejected by the Supreme Court of Appeal.<sup>63</sup> It resolved the issue by asking whether the mark (LIQUORICE ALLSORTS) “is the name of the product (a type of confectionery) or whether it is the name of [the manufacturer’s] product”.<sup>64</sup> Or as Webster and Page put it: “Does the mark ... indicate that the goods or services in relation to which the mark is used or proposed to be used are distinct from the goods or

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distinction between “adapted to distinguish” and “capable of distinguishing”. See also par 3.29 & 3.40; Morley (1998) 24.

<sup>56</sup> Concise Oxford Dictionary 9<sup>th</sup> ed 192 (definition of capable); 393 (definition of distinguish).

<sup>57</sup> Webster & Page (1997) par 3.40.1 suggest that the terms “distinctive character” and “capable of distinguishing” are synonymous. This submission is based on the *Beecham* judgment in which there is no distinction between the two terms. For this reason Webster & Page suggest that when determining whether or not a mark is “capable of distinguishing” for purposes of registration under the South African Act, guidance may be sought from UK cases determining whether or not a mark has a distinctive character under their 1994 Act.

<sup>58</sup> See Webster & Page (1997) par 3.40.2; *Koninklijke Philips Electronics N.V. v Remington Consumer Products Ltd.*, [2003] R.P.C. 2 14 (ECJ); *Beecham Group plc. v Triomed (Pty.) Ltd.* [2002] 4 All SA 193 (SCA); 2003 3 SA 639 (SCA) 651D-E, quoting from the *Philips* case.

<sup>59</sup> *Beecham Group plc. v Triomed (Pty.) Ltd.* [2002] 4 All SA 193 (SCA); 2003 3 SA 639 (SCA) 649J; Webster & Page (1997) par 3.25; Morley (1998) 24.

<sup>60</sup> Webster & Page (1997) par 3.40.2.

<sup>61</sup> *Cadbury (Pty.) Ltd. v Beacon Sweets & Chocolates (Pty.) Ltd.* 1998 1 SA 59 (T). The court found the phrase LIQUORICE ALLSORTS to be inherently capable of distinguishing, since it is “an original descriptive epithet which is not in ordinary linguistic use” (74D). Morley (1998) 25 questions the correctness of the court’s decision on this point. The court in any event also found that the mark was capable of distinguishing through extensive use (75I).

<sup>62</sup> *Cadbury (Pty.) Ltd. v Beacon Sweets & Chocolates (Pty.) Ltd.* 1998 1 SA 59 (T) 69G-H.

<sup>63</sup> *Cadbury (Pty.) Ltd. v Beacon Sweets & Chocolates (Pty.) Ltd.* [2000] 2 All SA 1 (A) 5d-f; 2000 2 SA 771 (SCA) 778G-H. Criticism against the court *a quo*’s reference to the concept “adapted to distinguish” was also expressed by Morley (1998) 24-25.

<sup>64</sup> The court (778H) referred to *The Oxford English Dictionary* 2<sup>nd</sup> ed (1989) *sv* “all”, which defines the word “all-sorts” as a species of confectionery (in full *liquorice all-sorts*)...”. The court (778I-J) also referred to confectionery manufacturing books, which denote *liquorice allsorts* as a product type. The respondent could also not submit an alternative name for the product. The court concluded (779D) that the manufacturer could not by advertising and selling the product under its generic name render that name capable of distinguishing in terms of s 9. The name was also used by others in the trade to



services of the same kind which do not bear the mark, or does the mark only tell the customer what the goods or services are?"<sup>65</sup>

There are degrees of inherent capacity to distinguish.<sup>66</sup> Purely descriptive marks, for example, are factually incapable of distinguishing and even through use cannot qualify for registration.<sup>67</sup> Section 10(2)(a) precludes the registration of a mark, which is so descriptive that it can never perform the function of a trade mark because it is for all practical purposes devoid of any distinctive character.<sup>68</sup> Section 10(2) is, however, qualified by the proviso that if the mark (having no inherent capacity to distinguish), at the time of application for registration has in fact become capable of distinguishing as a result of use, it will be registrable. Laudatory epithets are not normally inherently capable of distinguishing, but may be proved distinctive in fact through use.<sup>69</sup> So are descriptive marks, such as KWIKFIT in relation to an exhaust fitment centre.<sup>70</sup> Invented words on the contrary, are factually inherently capable of distinguishing,<sup>71</sup> even before use. Another category is those marks, where in the absence of use there is doubt as to the inherent factual capacity to distinguish.<sup>72</sup>

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describe the product and not to distinguish it (780F). The appeal succeeded. See also *Triomed (Pty.) Ltd. v Beecham Group plc.* [2001] 2 All SA 126 (T) 133b-d; 2001 2 SA 522 (T) 533B-C.

<sup>65</sup> Webster & Page (1997) par 3.40.2.

<sup>66</sup> Webster & Page (1997) par 3.25; 3.41 – 3.49; Morley (1998) 24.

<sup>67</sup> See s 10 (1), which precludes the registration of a mark "which does not constitute a trade mark". See also *Beecham Group plc. v Triomed (Pty.) Ltd.* [2002] 4 All SA 193 (SCA); 2003 3 SA 639 (SCA), which concerned the oval, bi-convex shape of an AUGMENTIN tablet. The court found that it is an ordinary shape and one of the most common in the pharmaceutical industry and was therefore not inherently capable of distinguishing (650G). Moreover, the shape did not become distinctive through use (650I). See further Webster & Page (1997) par 3.25, 3.40.2. Morley (1998) 24 gives the examples of TREAT for sweets and SOAP for soap.

<sup>68</sup> See Webster & Page (1997) par 3.43, 3.51.2 & 3.51.3. S 10(2)(a) reads as follows: "a mark which is not capable of distinguishing within the meaning of section 9". In *Pleasure Foods (Pty.) Ltd. v TMI Foods CC t/a Mega Burger* 2000 4 SA 181 (WLD) 190B the court found that the mark MEGABURGER was liable to be removed from the register in terms of s 10(2)(a), (b) and (c) as not being capable of distinguishing. The court said that the mark was merely descriptive of size and reasonable required for use in the trade.

<sup>69</sup> See *First National Bank of SA Ltd. v Barclays Bank plc. and another* [2003] 2 All SA 1 (SCA) 6a, dealt with under the 1963 Act, where Harms JA held that a laudatory epithet can be registered as a trade mark if it had become distinctive through use. The court found that the trade mark PREMIER was entitled to registration in part B (9g), but then found that in terms of s 10(1A) it was reasonably required for use in the trade and therefore not registrable (10c). There is also the possibility that a mark consisting entirely of a laudatory epithet can offend against one or more of the provisions of s 10(2) of the 1993 Act.

<sup>70</sup> Morley (1998) 24.

<sup>71</sup> Webster & Page (1997) par 3.42. The most quoted example is KODAK.

<sup>72</sup> Webster & Page (1997) par 3.25.



## 6.3 BACKGROUND TO THE DILUTION PROVISIONS OF THE 1993 ACT

### 6.3.1 COMMON-LAW POSITION

Misappropriation of the advertising value must in the first place be distinguished from passing off. Passing off takes place where there is a likelihood of confusion or deception as to the origin of the products and therefore passing off protects the origin function of a trade mark. Misappropriation can however happen inside or outside a competitive situation and will lead to trade mark dilution. By preventing misappropriation the advertising function of a trade mark is protected.<sup>73</sup>

Rutherford distinguishes between two forms of misappropriation of the advertising value, or what is known today as trade-mark dilution. He calls it unconcealed and concealed misappropriation.<sup>74</sup> Unconcealed misappropriation normally<sup>75</sup> takes place when an identical or similar trade mark is used in relation to competing products. Examples are in cases of comparative advertising<sup>76</sup> and generic use of a trade mark. Both blurring and tarnishment can occur.<sup>77</sup> Concealed misappropriation can take place in the traditional trade-mark infringement or passing-off situation. But it can also occur when an identical or similar trade mark is used on non-competing products.<sup>78</sup>

<sup>73</sup> Rutherford BR "Misappropriation of the Advertising Value of Trade Marks, Trade Names and Service Marks" (1990) 2 *SA Merc LJ* 151 at 153.

<sup>74</sup> Rutherford (1990) 153-158.

<sup>75</sup> It can according to Rutherford (1990) 154 also take place in a non-competitive situation. He uses the example of a trader who states that his kitchen appliances are made with the same precision as a Rolls Royce or an Omega.

<sup>76</sup> As there is no likelihood of confusion between the two products in this situation, there is no traditional infringement or passing off. Blurring however takes place and the trade mark becomes diluted.

<sup>77</sup> Rutherford (1990) 155 does not use the terms "blurring" or "tarnishment", but his descriptions correspond to those which are generally used for these two forms of dilution.

<sup>78</sup> See the discussion of the Dallas case (*Lorimar Productions Inc. & others v Sterling Clothing Manufacturers (Pty.) Ltd.* 1981 3 SA 1129 (T)) in Rutherford (1990) 156-157 for an example.



Where the unauthorised use is on non-competing, but related products, an injury named "confusion of sponsorship"<sup>79</sup> can be caused.<sup>80</sup> As there is no competitive situation, passing off or traditional trade-mark infringement cannot take place.<sup>81</sup> In this situation the trade-mark owner is also prevented from using his own mark if he intends to expand his line of business.<sup>82</sup> Another injury that can occur in the case of unauthorised use of a trade mark on non-competing goods is the dilution of the advertising value of the trade mark.<sup>83</sup>

It is clear that the common law afforded limited protection to misappropriation of the advertising value of a trade mark. Protection is only given "in so far as the right to goodwill of the proprietor is infringed, and then only where such misappropriation is accompanied by a likelihood of confusion as to origin or sponsorship".<sup>84</sup> The courts were also reluctant to accord judicial recognition to the advertising function of a trade mark.<sup>85</sup>

Furthermore, no protection was available under previous legislation against the unauthorised use on non-competing, unrelated products. Mostert argues that the exploitation of the commercial magnetism of a trade mark on non-competing goods constitutes an independent form of prejudice, apart from confusion of sponsorship and trade-mark dilution. This form of damage is nowhere protected in our common law.

<sup>79</sup> See Mostert (1986 *IIC*) 81-85 for a discussion of "confusion of sponsorship". This topic will not be discussed in any detail in this dissertation.

<sup>80</sup> The reasonable person will believe that there is some connection, affiliation or sponsorship between the products. The more well known a trade mark, the greater the likelihood of confusion of sponsorship. See Mostert FW "The Parasitic Use of Commercial Magnetism of a Trade Mark on Non-competing Goods" (1986) 11 *European Intellectual Property Review* 342.

<sup>81</sup> See Rutherford (1990) 156-166 regarding how this was dealt with in case law. Mostert (1986 *IIC*) 83 sets out the two basic objectives of a claim for confusion of sponsorship: "It serves to protect the reputation and goodwill of the goods of the trade-mark owner. Secondly, it serves to prevent deception of the purchasing public."

<sup>82</sup> Mostert (1986 *IIC*) 83.

<sup>83</sup> Mostert (1986 *IIC*) 80-95 & (1986 *EIPR*) 342 draws a clear distinction between these two forms of injury. Trade-mark dilution occurs when the respective goods of the plaintiff and defendant are not closely related.

<sup>84</sup> Rutherford (1990) 158.

<sup>85</sup> Rutherford (1990) 162.



According to Mostert this form of prejudice should be afforded legal protection as an independent interest.<sup>86</sup>

### 6.3.2 PREVIOUS LEGISLATION

Both the Copyright Act 98 of 1978 and the Designs Act 57 of 1967 provide incidental protection against the misappropriation of the advertising value of a trade mark.<sup>87</sup> The Trade Marks Act 62 of 1963 provided statutory protection under section 44 in the following cases: Section 44(1)(a) prevents the unauthorised use as a trade mark of the same or a confusingly similar trade mark in relation to the goods for which the mark is registered and section 44(1)(b) prevents any use in the course of trade, otherwise than as a trade mark, of the same or confusingly similar trade mark in relation to the goods for which the mark is registered and which is likely to cause the proprietor injury or prejudice. The phrase "use ... otherwise than as a trade mark" in section 44(1)(b) will cover comparative advertising and generic use, both examples of unconcealed misappropriation.<sup>88</sup> The possibility of defensive registrations<sup>89</sup> created by section 53 of the Trade Marks Act of 1963 provided some protection in the case of non-competing, but related products.

### 6.3.3 THE INFLUENCE OF THE UNITED KINGDOM AND EUROPEAN LAW

As stated above, South African trade-mark law has traditionally been closely linked to that of the United Kingdom. The first South African legislation in this field was to a great extent based on its English counterpart. As member of the European Union since 1971, the United Kingdom's trade-mark legislation has to comply with the European Directive on the Harmonisation of Trade Mark Laws of 1988.<sup>90</sup> The United Kingdom

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<sup>86</sup> See Mostert (1986 *EIPR*) 342-348 for a well-considered, comparative discussion on this topic. A discussion of this form of injury goes beyond the scope of this dissertation.

<sup>87</sup> See the discussion in Rutherford (1990) 158-159.

<sup>88</sup> Rutherford (1990) 160.

<sup>89</sup> See Chapter 6.2.2 "Defensive Registrations" *supra*.

<sup>90</sup> See Chapter 5.5.2 "Final Adoption and Aim" *supra*.



Trade Marks Act of 1994 complied with its obligations under the Directive.<sup>91</sup> The South African legislature in the South African Trade Marks Act of 1993 also adopted a number of principles and definitions from the European Directive. The South African Act thus shows a substantial degree of harmony with legislation in the United Kingdom and other European countries. There are, however, also several differences.<sup>92</sup> In *Beecham v Triomed*,<sup>93</sup> the court stressed that judgments of the United Kingdom and the Court of Justice of the European Communities all have “persuasive force”, but that the South African courts are not bound by these authorities. The South African Act should be “interpreted and applied in the light of our law and circumstances”. Policy considerations in South Africa and Europe may also be different.

More specifically, the definition of a trade mark and the requirements for registration in the European Directive, had a substantial influence on the current South African legislation on these matters.<sup>94</sup> There is however one difference between the European Directive and United Kingdom Act on the one hand and the South African Act on the other hand regarding the definition of a trade mark and registration requirements. The two first mentioned used the phrase “capable of distinguishing” in the definition of a trade mark, whereas in the South African Act this phrase is used when dealing with the basic requirements for registration of a trade mark.<sup>95</sup> According to Webster and Page care must therefore be exercised when considering cases decided under the European Directive or United Kingdom Act on this aspect.<sup>96</sup> The United Kingdom’s legislation actually has a two-fold test. Section 3(1)(a) requires the mark to be “capable of distinguishing”, thus preventing registration of a mark which is so descriptive that it cannot be registered. The threshold for section 3(1)(a) was extremely low and “capable of distinguishing” was interpreted to mean “not incapable of distinguishing”.<sup>97</sup> This is

<sup>91</sup> This Act came into force on 30 October 1994.

<sup>92</sup> Webster & Page (1997) par 1.2.

<sup>93</sup> *Beecham Group plc. v Triomed (Pty.) Ltd.* [2002] 4 All SA 193 (SCA); 2003 3 SA 639 (SCA) 645A-D.

<sup>94</sup> This was acknowledged in the explanatory memorandum which accompanied the Trade Marks Bill, namely the Memorandum on the Objects of the Trade Marks Bill, 1993 [B174B-93(GA) 50]. See Webster & Page (1997) par 3.40.1 for a more comprehensive discussion.

<sup>95</sup> The definition of “trade mark” in s 2 instead defines a trade mark as “a mark used ... for the purpose of distinguishing goods or services...”.

<sup>96</sup> Webster & Page (1997) par 3.40.1.

<sup>97</sup> See Webster & Page (1997) par 3.40.1.



followed by section 3(1)(b), which prevents registration of trade marks “devoid of distinctive character”. This phrase refers to trade marks, which lack a distinctive character in the absence of appropriate use.<sup>98</sup> Cases decided under section 3(1)(b) of the 1994 United Kingdom Act in which the distinctive character of a trade mark was determined, may be of assistance to South African courts when determining whether a mark is “capable of distinguishing” or not for purposes of section 9 of the South African Act.<sup>99</sup>

### 6.3.4 SOUTH AFRICA’S INTERNATIONAL OBLIGATIONS

#### 6.3.4.1 THE PARIS CONVENTION

The Paris Convention<sup>100</sup> has long been the principal international treaty in the field of trade-mark law. This Convention is administered by the World Intellectual Property Organisation (WIPO). The Convention was concluded in Paris in 1883 and has been revised from time to time. The last revision was in Stockholm on 14 July 1967. South Africa has been a member since 1947.<sup>101</sup> In short, member countries promise national treatment for citizens of other member states and also agree to maintain at least a specified minimum level of trade-mark protection. As the Paris Convention is not a statute, but an agreement between contracting nations, it cannot confer rights on trade-mark proprietors.<sup>102</sup> A further Act of domestic legislation is required to create

<sup>98</sup> The controversy around this dual test was referred to the Court of Justice of the European Communities by the English Court of Appeal in the case of *Philips Electronics N.V. v Remington Consumer Products Ltd.*, [1999] R.P.C. 809 (CA). The question before the CJEC in *Koninklijke Philips Electronics N.V. v Remington Consumer Products Ltd.*, [2003] R.P.C. 2 14 (ECJ) was: “Is there a category of marks which is not excluded from registration by Articles 3(1)(b)-(d) and Article 3(3) of the Council Directive 89/104/EEC, which is nonetheless excluded from registration by Article 3(1)(a) of the Directive...?” The question was answered in the negative as the respective articles have the same purpose. For a detailed discussion of this case, see Webster & Page (1997) par 3.40.1. The *Philips* case greatly influenced the judgment of the Supreme Court of Appeal in *Beecham Group plc. v Triomed (Pty.) Ltd.* [2002] 4 All SA 193 (SCA); 2003 3 SA 639 (SCA).

<sup>99</sup> See Chapter 6.2.3 “Registrability under the 1993 Act” *supra* for a discussion of s 9.

<sup>100</sup> The Convention of Paris for the Protection of Industrial Property. See Webster & Page (1997) Appendix 6 for the text. See also Rangel-Ortiz H “Well-Known Trademarks Under International Treaties: Paris Convention and TRIPS – Part 1” (1997) *Trademark World* 14-16.

<sup>101</sup> Webster & Page (1997) par 8.47.

<sup>102</sup> Blakeney (1994) 481.



enforceable rights. Article 6bis(1) of the Convention makes provision for the protection of famous or well-known marks<sup>103</sup> from infringement, but only when used on identical or similar goods and thus not in the case of dilution.<sup>104</sup>

The Madrid Protocol and the Trademark Law Treaty were two more recent initiatives to create a system for foreign registrations and to harmonise trade-mark registration procedures, respectively.<sup>105</sup>

The latest initiative by WIPO, relevant for this study, is the Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks, adopted by the Assembly of the Paris Union for the Protection of Industrial Property and the General Assembly of WIPO.<sup>106</sup> It is recommended that each Member State, meaning a State member of the Paris Convention and/or WIPO, may consider the use of any of the provisions contained in the Joint Recommendation as guidelines<sup>107</sup> for the protection of well-known marks in that Member State. This recommendation is *inter alia* applicable in the case of so-called dilution of a well-known mark.<sup>108</sup>

Article 2(1)(a) states that "any circumstances from which it may be inferred that the mark is well known" can be taken into account. Article 2(1)(b) then lists certain factors which in particular can be considered, although none of these factors may be relevant and "the decision may be based on additional factors that are not listed ...".<sup>109</sup> The factors<sup>110</sup> are

<sup>103</sup> The term "well-known mark" is not defined in the Paris Convention. See Webster & Page (1997) par 8.51.

<sup>104</sup> See Marroletti W "Dilution, Confusion, or Delusion? The Need for a Clear International Standard to Determine Trademark Dilution" (1999) 25 *Brooklyn Journal of International Law* 659 at 668 fn 63; Rangel-Ortiz (1997) 15; Kaufman IJ "The Impact of the Trade Related Aspects of Intellectual Property Rights Agreement on Trademarks" (1997) *Trademark World* 30 at 34.

<sup>105</sup> Denicola RC "Some Thoughts on the Dynamics of Federal Trademark Legislation and the Trademark Dilution Act of 1995" (1996) 59 *Law and Contemporary Problems* 75 at 81.

<sup>106</sup> Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks adopted by the Assembly of the Paris Union for the Protection of Industrial Property and the General Assembly of the WIPO at the Thirty-Fourth Series of Meetings of the Assemblies of the Member States of WIPO 20 to 29 September 1999, WIPO Geneva 2000 (r:\intranet\www\eng\infbroch\833(e).doc).

<sup>107</sup> See Joint Recommendation p4 & art. 2(1)(c).

<sup>108</sup> See Joint Recommendation art. 4(1)(b)(i) & (ii).

<sup>109</sup> Art. 2(1)(c) of the Joint Recommendation.

<sup>110</sup> In art. 2(1)(b) of the Joint Recommendation.



the degree of knowledge or recognition of the mark amongst the relevant sector of the public; the duration, extent and geographical area of any use of the mark; the duration, extent and geographical area of any promotion of the mark; the duration and geographical area of any registrations and/or applications for registration of the mark; the extent to which the mark was recognised as well known by the competent authorities; and the value associated with the mark.<sup>111</sup> The “relevant sector of the public” is defined as actual and/or potential consumers of the type of goods, persons involved in channels of distribution and business circles.<sup>112</sup> The Joint Recommendation, however, determine that in the case of dilution, a Member State may require that the well-known mark be well known “by the public at large”.<sup>113</sup>

#### 6.3.4.2 THE GATT AGREEMENT ON THE TRADE RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS

GATT<sup>114</sup> was created in 1947 at the Bretton Woods Conference. This conference established *inter alia* the World Bank and the International Monetary Fund.<sup>115</sup> GATT was an attempt to remove barriers to free trade by lowering tariffs. At the end of the eighth round of negotiations to revise GATT, called the Uruguay round, the WTO was established in 1994 to replace GATT.<sup>116</sup> South Africa became a member of the World Trade Organisation (WTO) with effect from 31 January 1995, the date of its establishment. South Africa also became a party to TRIPS, the agreement on Trade-Related Aspects of Intellectual Property Rights.<sup>117</sup> This agreement was ratified by the

<sup>111</sup> Compare the eight factors listed in the Federal Trademark Dilution Act of the United States. See Chapter 4.7.1 “Definition of Dilution in the Act” & Chapter 4.7.2 “Discussion of the Different Factors” *supra*.

<sup>112</sup> Art. 2(2)(a) of the Joint Recommendation. If a mark is determined to be well known in at least one relevant sector of the public in a Member State, the mark shall be considered to be a well-known mark. See art. 2(2)(b).

<sup>113</sup> Art. 4(1)(c) read together with art. 4(1)(b)(ii) & (iii).

<sup>114</sup> General Agreement on Tariffs and Trade.

<sup>115</sup> Kaufman (1997) 30.

<sup>116</sup> Kaufman (1997) 30, 31. This round began in 1986. Negotiations progressed slowly and after intervention from Dunkel, the Director General of GATT, negotiations were concluded and ratified in 1994 in Marrakesh. The WTO was established by the Marrakesh Agreement or the World Trade Organisation Agreement.

<sup>117</sup> Text in Webster & Page (1997) Appendix 8.



South African parliament on 5 April 1995.<sup>118</sup> South Africa is thus bound by the TRIPS agreement, which is one of a number of multilateral agreements on trade entered into under the Final Act of the Uruguay Round of Multilateral Trade Negotiations in 1994.<sup>119</sup> The TRIPS agreement was the first effort to address intellectual property rights within the context of a worldwide trade agreement.<sup>120</sup> The increase in international trade and growing recognition of intellectual property rights in this context, as well as the growth in infringements of these rights made this agreement necessary. The main aim of this agreement is to prevent obstacles to international trade being created because of a perceived need to protect intellectual property rights, by stipulating minimum levels of protection for such rights that must be provided by Member States in their domestic legislation.<sup>121</sup> A further aim of the TRIPS agreement is to promote technological innovation and the transfer and dissemination of technology. The TRIPS agreement is considered to be a major breakthrough in the international protection of intellectual property, both because of its substance and the wide degree of international acceptance.<sup>122</sup>

Trade marks are covered in articles 15 to 24 of the TRIPS agreement which is contained in Part II named "Standards Concerning the Availability, Scope and Use of Intellectual Property Rights". Other parts of the agreement deal with the acquisition, maintenance and enforcement of intellectual property rights, dispute prevention and settlement procedures, transitional arrangements and a few miscellaneous provisions.<sup>123</sup>

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<sup>118</sup> Webster & Page (1997) par 1.5.

<sup>119</sup> See Davies IM (general editor) *Sweet & Maxwell's European Trade Mark Litigation Handbook* (1998) Sweet & Maxwell London 27. There are 130 member countries, listed in Webster & Page (1997) Appendix 9.

<sup>120</sup> Kaufman (1997) 30.

<sup>121</sup> Davies (1998) 28; Rangel-Ortiz (1997) 16.

<sup>122</sup> Worthy J "Intellectual Property Protection after GATT" (1994) 5 *European Intellectual Property Review* 195.

<sup>123</sup> See Kaufman (1997) 32-34.



### **(i) Three Basic Principles**

The TRIPS agreement rests on three basic principles. Firstly, Member States are required to introduce minimum levels of protection and enforcement of intellectual property rights. Secondly, each Member State should protect nationals of other states by granting them the rights set out in the TRIPS agreement. This is known as the principle of national treatment. Thirdly, the nationals of other Member States must be treated no less favourably than a Member State's own nationals. Furthermore, advantages given to nationals of one Member State must be extended to the nationals of all other Member States, even if this treatment is more favourable than that which is offered to its own nationals. This is known as the "most favoured nation" principle.<sup>124</sup> The appropriate method of implementation is left to the discretion of the Member States, but will be monitored by the WTO.<sup>125</sup>

### **(ii) Specific Provisions Regarding Trade Marks**

The definition of a trade mark in the TRIPS agreement is very similar to the one found in the Trademark Directive and the United Kingdom's Trade Marks Act of 1994. According to Davies<sup>126</sup> it is generally thought that no changes are required by the United Kingdom to comply with the TRIPS agreement. The minimum rights, which must be conferred on trade-mark owners are defined. In this regard it must be noted that well-known marks are given greater protection.<sup>127</sup> Concerning the enforcement of intellectual property rights, Member States are obliged to provide domestic procedures and remedies that can be used by non-nationals of that state.<sup>128</sup>

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<sup>124</sup> Worthy (1994) 195.

<sup>125</sup> Davies (1998) 28-29; Kaufman (1997) 33. A Council for TRIPS will monitor the operation of the TRIPS agreement, as well as the Member States' compliance with its terms.

<sup>126</sup> Davies (1998) 29. One exception is, however, noted by her.

<sup>127</sup> See Worthy (1994) 196.

<sup>128</sup> See Davies (1998) 29-30 for a list of more specific requirements in this regard.



### (iii) Dilution Protection in the TRIPS Agreement

It is believed that article 16(3) of the TRIPS agreement specifically encompasses the dilution doctrine.<sup>129</sup> This article is worded as follows:

“Article 6bis of the Paris Convention (1967) shall apply, *mutatis mutandis*, to goods or services which are not similar to those in respect of which a trademark is registered, provided that use of that trademark in relation to those goods or services would indicate a connection between those goods or services and the owner of the registered trademark and provided that the interests of the owner of the registered mark are likely to be damaged by such use.”

The protection against imitations of well-known marks on identical or similar<sup>130</sup> goods is thus extended to dissimilar goods or services under the above mentioned conditions. The fact that this article refers to “goods or services which are not similar” suggests that it is aimed at protecting against dilution. It is, however, not clear whether this article requires enactment of dilution statutes or whether protection against confusing uses on dissimilar goods would suffice.<sup>131</sup> There is a limitation built into this provision, namely the requirement that the well-known mark must be registered. Protection is, however, often needed in the absence of registration.<sup>132</sup>

To determine whether a mark is well-known in the context of Article 6bis of the Paris Convention, article 16(2) determines that the knowledge of the trade mark in the relevant sector of the public, including knowledge in the country where protection is sought, obtained as a result of the promotion of the trade mark, must be taken into account.<sup>133</sup> It is, however, uncertain whether this definition will be accepted for the purposes of article 16(3) as well.

<sup>129</sup> Gilson (1999) § 5.12.1.b; Denicola (1996) 84; Webster & Page (1997) par 12.24 fn 11; Kaufman (1997) 34; Mostert FW “Well-known and Famous Marks: is Harmony Possible in the Global Village?” (1996) 86 *The Trademark Reporter* 103 at 130.

<sup>130</sup> A synonym for “similar” goods is “related” goods. See Mostert (1996) 130.

<sup>131</sup> Denicola (1996) 84 fn 40.

<sup>132</sup> Mostert (1996) 130.

<sup>133</sup> Rangel-Ortiz (1997) 16; Worthy (1994) 196.



## 6.4 DISCUSSION OF THE DILUTION PROVISIONS AND CASES

### 6.4.1 INTRODUCTION

As stated above, a new South African Trade Marks Act<sup>134</sup> took effect on the 1 May 1995. This Act for the first time introduced protection against the misappropriation of the advertising value<sup>135</sup> or dilution of trade marks.<sup>136</sup> Although this was done to bring our legislation into line with that of South Africa's most important trading partners, especially those in the European Union, it was also in accord with proposals for legislative reform by important role-players within the South African trade-mark law environment.<sup>137</sup>

Section 9<sup>138</sup> of the Act sets out the grounds for registrability. Although a mark may be capable of distinguishing, thus satisfying the requirement for registrability set in section 9 of the 1993 Act, it may be unregistrable in terms of section 10. Section 10 sets out absolute and relative grounds for the refusal of registration of a trade mark.<sup>139</sup> These grounds can also be used to remove a mark, already registered, from the register.<sup>140</sup> Two new grounds for objection were introduced by the 1993 Act, namely section 10(6), dealing with the protection of well-known foreign trade marks, and section 10(17) the so-called dilution provision. In the following paragraph section 10(17), one of the relative grounds, will be discussed. The counterpart of this section, section 34(1)(c), dealing with infringement by way of dilution, will also be discussed.

<sup>134</sup> The Trade Marks Act 194 of 1993.

<sup>135</sup> In the words of Rutherford (1990) 151.

<sup>136</sup> See *Bata Ltd. v Face Fashions CC* 2001 1 SA 844 (SCA) 851E, where Melunsky AJA said "The section was introduced ... to provide protection against the dilution of a registered trade mark..."

<sup>137</sup> See the proposal of Rutherford (1990) 162-163.

<sup>138</sup> See Chapter 6.2.3 "Registrability under the 1993 Act" *supra*.

<sup>139</sup> S 10(1), (2)(a)-(c), (3), (4), (5), (7), (8), (9), (10), (11) and (13) constitute absolute grounds for refusal. These prohibitions arise out of the inherent nature of the particular mark. See Webster & Page (1997) par 3.51 – 3.57. The grounds contained in s 10(6), (12), (14), (15), (16) and (17) relate to a conflict with the prior rights of others and are therefore relative grounds for refusal. Webster & Page (1997) par 6.1 – 6.28. The terms absolute and relative are the terms used in the United Kingdom Act of 1994.

<sup>140</sup> See the introductory portion of s 10.



## 6.4.2 THE DILUTION PROVISIONS

Section 10 deals with unregistrable trade marks and provides that certain categories of marks shall not be registered as trade marks or, if registered, shall, subject to the provisions of sections 3 and 70, be liable to be removed from the register.<sup>141</sup> One such category is defined in subsection (17) as:

“[A] mark which is identical or similar to a trade mark which is already registered and which is well-known in the Republic, if the use of the mark sought to be registered would be likely to take unfair advantage of, or be detrimental to, the distinctive character or the repute of the registered trade mark, notwithstanding the absence of deception or confusion, unless the proprietor of such trade mark consents to the registration of such mark.”

Section 34 describes the different ways of infringing a registered trade mark.<sup>142</sup> One of these is contained in section 34(1)(c), which refers to -

“the unauthorized use in the course of trade in relation to any goods or services of a mark which is identical or similar to a trade mark registered, if such trade mark is well known in the Republic and the use of the said mark would be likely to take unfair advantage of, or be detrimental to, the distinctive character or the repute of the registered trade mark, notwithstanding the absence of confusion or deception: Provided that the provisions of this paragraph shall not apply to a trade mark referred to in section 70(2).”

Webster and Page state that these two provisions describe what are “commonly known as the dilution provisions”.<sup>143</sup> Unluckily no definition for the term “dilution” was provided in the Act.

<sup>141</sup> S 3 deals with application of the Act of 1993 to marks registered under the repealed Act and s 70 contains transitional provisions.

<sup>142</sup> S 33 provides that no one shall be entitled to institute any proceedings under s 34 in relation to a trade mark *not registered* under the Act. This implies that only registered marks are protected under the Act. See Webster & Page par 12.1. However, in the light of the dilution provisions it is no longer necessary to have a trade mark registered in respect of the goods or services to which the alleged infringement relates to qualify for protection. Section 34(1)(c) refers to “any goods or services”.

<sup>143</sup> Webster & Page (1997) par 6.25.1.



Although the interpretation of most of the important phrases in the sections quoted above is quite clear, the phrases “well known” and “likely to take unfair advantage of, or be detrimental to, the distinctive character or repute” are open to interpretation by the courts. In this Chapter the dilution provisions will mainly be discussed as used and already interpreted in South African law. The main comparison between the South African provisions and their counterparts in the United States Law and European Union Law, including that of the United Kingdom, will be made in the next chapter.

### **(i) Use in the Course of Trade**

“Use in the course of trade” in section 34(1)(c) is comparable with the phrase “commercial use” in the United States. Thus it exempts any non-commercial uses, such as news reporting and literary works, from enforcement.<sup>144</sup>

As section 34(1)(c) clearly applies to use in relation to any goods or services notwithstanding the absence of confusion or deception, “use in the course of trade” must mean “in the course of *any* trade”.<sup>145</sup> This may have far-reaching implications, but this is the aim of section 34(1)(c) compared to the traditional infringement provisions.

### **(ii) Use ....in Relation to Any Goods or Services**

The phrase “any goods or services” certainly includes goods and services that are not similar, but most probably also includes similar goods and services.<sup>146</sup> This can potentially mean that section 34(1)(c) can apply concurrently with section 34(1)(a) and 34(1)(b) of the South African Act. Nevertheless, as reasoned below in par (v) the dilution provisions are not intended to be used concurrently with either section 34(1)(a) or (b), because it would negate the basic difference between traditional infringement and

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<sup>144</sup> Schwartz & Morfesi (1997) 458.

<sup>145</sup> See Webster & Page (1997) par 12.29.

<sup>146</sup> See Webster & Page (1997) par 12.24.



dilution.<sup>147</sup> It can, however, be used in the alternative as an aggrieved party under section 34(1)(c) does not have to establish confusion. In *Triomed v Beecham*<sup>148</sup> the court stated that section 34(1)(c) is meant to prevent the use of a well-known mark on goods “other than those for which the mark registered”. The court went on to say that this subsection is not intended to protect a proprietor who cannot prove the requirements of section 34(1)(a) or 34(1)(b) in respect of the same or similar goods.

### (iii) Use of the Registered Mark or a Mark Similar Thereto

This phrase entails a comparison between the two marks. This comparison is limited to a comparison of the marks alone.<sup>149</sup> If the offending mark is identical to the registered mark, there is no difficulty. In the case of similar marks objective similarity between the two marks must be proved. The term “similar mark” is however open to judicial interpretation. The ordinary dictionary meaning of the phrase is “showing resemblance in qualities, characteristics, or appearance; alike but not identical”<sup>150</sup> or “having a marked resemblance or likeness”.<sup>151</sup>

In case law there are three South African cases that can be referred to in this context. The first is *National Brands Limited v Blue Lion Manufacturing Limited*,<sup>152</sup> where the following approach was approved and followed. It was stated that the offending mark should immediately bring to mind the well-known trade mark.<sup>153</sup> Secondly, in the case of *Bata Ltd v Face Fashions CC*,<sup>154</sup> the court had to compare the marks POWERHOUSE and POWER in the context of section 34(1)(c). The Supreme Court of Appeal stated the

<sup>147</sup> See Chapter 3.3 “Traditional Infringement Contrasted with Dilution” *supra* for a complete discussion of the difference between the two concepts.

<sup>148</sup> *Triomed (Pty) Ltd. v Beecham Group plc.* [2001] 2 All SA 126 (T) 153-154; 2001 2 SA 522 (T) 555D.

<sup>149</sup> Webster & Page (1997) par 12.26.

<sup>150</sup> *Collins Dictionary of the English Language* 1<sup>st</sup> ed 1979.

<sup>151</sup> *The Shorter Oxford English Dictionary* 3 ed vol II.

<sup>152</sup> *National Brands Ltd. v Blue Lion Manufacturing Ltd.* unreported judgment TPD 11 May 1999 case 98/23751.

<sup>153</sup> See Webster & Page (1997) par 12.26.

<sup>154</sup> *Bata Ltd. v Face Fashions CC* 2001 1 SA 844 (SCA). The following facts were relevant in the context of the s 34(1)(c) enquiry. The appellant was the registered owner of the name POWER in respect of all footwear. The respondent used the marks POWER HOUSE and POWERHOUSE on articles of



word "similar" should not be given too wide an interpretation to prevent creating an unacceptable monopoly to the proprietor of a trade mark and thus unduly stultifying freedom of trade. If the marks, therefore, only contain features of the same kind or bear a slight resemblance, they will not be considered to be "similar". The court chose the meaning given to the term in *The Oxford English Dictionary*, namely "having a marked (easy to recognise) resemblance or likeness". Applying this to the facts, the court decided that the two marks might possibly have "a slight or superficial resemblance", but that "the likeness between the two is not sufficiently close or marked to enable this Court to hold that they are similar for the purposes of section 34(1)(c)".<sup>155</sup> The third case, *SAB v Laugh It Off Promotions*,<sup>156</sup> also followed the approach in *Bata v Face Fashions*.

#### (iv) Well known

The phrase "well known" is not defined in the South African Trade Marks Act. It is the same term as that used in article 6bis of the Paris Convention, which also left the concept undefined. The only other places in the South African Act where the phrase is used is in sections 10(6) and 35, both dealing with the protection of well-known trade marks. This phrase was interpreted in the *McDonald's* case<sup>157</sup> in the context of section 35. The court interpreted it against the background of the common law on passing off.<sup>158</sup> It was clear from the application of the passing-off action that owners of foreign trade marks who did not have a goodwill within the country were not protected. It was accepted that section 35 was to remedy this position.<sup>159</sup> The court then stated "that a mark is well known in the Republic if it is well known to persons interested in the goods or services to which the

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clothing. (The appellant's contentions regarding its other cause of action based on s 34(1)(a) was rejected by the court.)

<sup>155</sup> *Bata Ltd. v Face Fashions* CC 2001 1 SA 844 (SCA) 852B-E. The appeal was therefore dismissed with costs.

<sup>156</sup> *SAB International t/a Sabmark International v Laugh It Off Promotions* [2003] 2 All SA 454 (C) 458d-g. The requirement was referred to but not discussed in the judgment on appeal *Laugh It Off Promotions CC v SA Breweries International (Finance) BV t/a Sabmark International* [2004] 4 All SA 151 (SCA). See the detailed discussion in Chapter 6.4.4. "Cases" *infra*.

<sup>157</sup> *McDonald's Corporation v Joburgers Drive-Inn Restaurant (Pty.) Ltd. and another; McDonald's Corporation v Dax Prop CC and another; McDonald's Corporation v Joburgers Drive-Inn Restaurant (Pty.) Ltd and Dax Prop CC* 1997 1 SA 1 (A); [1996] 4 All SA 1 (A).

<sup>158</sup> Webster & Page (1997) par 12.27.

<sup>159</sup> *McDonalds* Case 19D-E.



mark relates".<sup>160</sup> The court went on to state that the degree of knowledge within the relevant sector is that of a "substantial number of persons".<sup>161</sup> Section 35 of the Act was amended by the Intellectual Property Laws Amendment Act 38 of 1997 by the insertion of subsection (1A):

"In determining for the purposes of subsection (1) whether a trade mark is well known in the Republic, due regard shall be given to the knowledge of the trade mark in the relevant sector of the public, including knowledge which has been obtained as a result of the promotion of the mark."

This definition corresponds closely to the definition in section 16(2) of the TRIPS agreement.<sup>162</sup>

There is a presumption in the law that the same expression in every part of a statute bears the same meaning, except if there are clear indications to the contrary.<sup>163</sup> This means that "well known" in section 34(1)(c) should in principle have the same meaning as in section 35. However, the view of Webster and Page that there are clear indications to the contrary appears to be correct.<sup>164</sup> The fact that the legislature specifically mentions that section 35(1A) should apply "in determining for the purposes of subsection (1)", may indicate that the legislature attempted to distinguish between the meanings of "well known" for the purposes of section 35 and section 34(1)(c).<sup>165</sup> This would mean that the interpretation given to "well known" in section 35 and the *McDonalds* case should not necessarily be used in determining the meaning of the same phrase in section 34(1)(c). Another fact, which reinforces this proposition, is that the purpose of section 35 was to overrule the requirement of the common law on passing off that goodwill in South Africa is necessary for relief. The remedy against passing off is aimed at protecting the origin function of a trade mark and takes place in a competitive situation where there is a likelihood of confusion or deception. This factor is therefore not relevant in the context

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<sup>160</sup> *McDonalds* Case 20E.

<sup>161</sup> *McDonalds* Case 21D.

<sup>162</sup> See Chapter 6.3.4.2 "The GATT Agreement on the Trade Related Aspects of Intellectual Property Rights (iii) Dilution Protection in the TRIPS Agreement" *supra*.

<sup>163</sup> Du Plessis, LM *Interpretation of Statutes* (1986) Butterworths Durban 127.

<sup>164</sup> Webster & Page (1997) par 12.27.

<sup>165</sup> See Webster & Page (1997) par 12.27 fn 1.



of section 34(1)(c).<sup>166</sup> This would mean that “well known” in the “dilution” provisions of the South African Act could be interpreted more like the term “famous” in the United States Law. The knowledge of the public at large or of non-consumers may then be relevant to determine whether the commercial magnetism of the mark has been misappropriated.<sup>167</sup> This stricter definition can be justified in the light of the fact that the protection of trade marks is extended to non-competing goods by the dilution rationale.

However, in *Triomed (Pty) Ltd v Beecham Group plc*<sup>168</sup> the court adopted the *McDonald's* interpretation of “well known” in the context of section 34(1)(c), stating:

“In my view the interpretation given to the expression [well known] in the context of s 35 of the Act in the *McDonald's* case could appropriately be applied to the interpretation of ‘well known in the Republic’ as this expression appears in s 34(1)(c) of the Act.”

This notion was also followed in *SAB v Laugh It Off Promotions*.<sup>169</sup>

It is accepted that a well-known trade mark is a mark that is widely or generally known. Mostert<sup>170</sup> defines it as a mark “which is known to a substantial segment of the relevant public in the sense of being associated with the particular goods or services”. A well-known mark clearly has a reputation. Marks with a reputation, on the other hand, are not necessarily well known.<sup>171</sup> There is also an even higher degree of prominence, namely famous marks.<sup>172</sup> These famous marks deserve a broader scope of protection against unauthorised uses.<sup>173</sup> In the French Intellectual Property Code<sup>174</sup> the following

<sup>166</sup> Webster & Page (1997) par 12.27 especially fn 4.

<sup>167</sup> See Mostert (1996) 119.

<sup>168</sup> *Triomed (Pty.) Ltd. v Beecham Group plc*. [2001] 2 All SA 126 (T) 154; 2001 2 SA 522 (T) 556C-D; [2001] FSR 34, 618 par 132.

<sup>169</sup> *SAB International t/a Sabmark International v Laugh It Off Promotions* [2003] 2 All SA 454 (C) 458i-459b. See Chapter 6.4.4 “Cases” *infra*.

<sup>170</sup> Mostert (1996) 115.

<sup>171</sup> The United Kingdom Trade Marks Act s 10(3) uses the phrase “marks with a reputation” instead of “well known”. See Chapter 5.7.2.1 “General” *supra*.

<sup>172</sup> The Federal Trademark Dilution Act 1995, Lanham Act § 43(c), 15 U.S.C. § 1125(c). See Chapter 4.7 “The Federal Trade Mark Dilution Act of 1995” *supra*.

<sup>173</sup> Mostert (1996) 115, 116-117. The higher the degree of reputation or commercial magnetism, the broader its scope of protection should be, irrespective of whether it is a well-known or a famous mark.

<sup>174</sup> Art. 16 of the Act of 4 January 1991. See also Blakeney (1994) 482.



distinction is drawn between "well known" and "famous". Well-known marks are defined as a mark "recognised by a large fraction of the circles concerned with the production, sale or use of the goods in question and which is clearly perceived as indicating a particular origin of these products". A famous mark is a mark "known internationally or worldwide".<sup>175</sup> It is therefore presumed that the term "well known" as used in the South African Act implies a lesser degree of fame than those famous marks possess.

In the case of *Safari Surf Shop CC v Heavywater*<sup>176</sup> the trade mark SPIDER came under scrutiny. For purposes of section 34(1)(c) the enquiry centered on the interpretation of "well known". The SPIDER trade mark was only known in coastal areas in which the surfboards on which it was used, were available. The court found that the mark was well known throughout surfing circles in the Republic of South Africa and that this was sufficient for the purposes of section 34(1)(c). The court formulated the test as follows: "If the trade mark is well known in that part of the Republic of South Africa in which the goods in relation to which it is used, are available, then that, in my opinion, is sufficient".<sup>177</sup> However, in this case it is important to remember that the respondent used the device of a spider on the same products, surfboards, in the same geographical area as the applicant.<sup>178</sup>

<sup>175</sup> The World Intellectual Property Organisation (WIPO) in its Draft Trademark Law Treaty Art. 103(2) (June 1990) draws the distinction between "well-known marks" and "exceptionally well-known marks".

<sup>176</sup> *Safari Surf Shop CC v Heavywater* [1996] 4 All SA 316 (D). Both parties carried on business as manufacturers of surfboards. The applicant was the registered proprietor of the SPIDER trade mark. The respondent then started to use a device of a spider. The applicant succeeded with a claim under s 34(1)(a), as the court found that the defendant's mark so nearly resembled the applicant's mark as to be likely to deceive or cause confusion (327e-f, 328d). In the alternative, action was instituted under s 34(1)(c).

<sup>177</sup> *Safari Surf Shop CC v Heavywater* [1996] 4 All SA 316 (D) 327e-g.

<sup>178</sup> Webster & Page (1997) par 12.27 agree with this judgment on the facts of the case. They, however, note that if the respondent used its device on another product throughout the country, the outcome ought to be different.



(v) **Likely to Take Unfair Advantage of, or be Detrimental to, the Distinctive Character or Repute**

It is clear that the phrases “unfair advantage” and “detrimental to” both qualify “the distinctive character or the repute” of the trade mark. The commercial magnetism and selling power of a trade mark flow from its distinctive character or repute and these characteristics are protected by the dilution provisions.<sup>179</sup> Schwartz and Morfesi<sup>180</sup> contended that this phrase requires a showing of likelihood of dilution, which can be proved by either blurring or tarnishment. The South African courts had the opportunity to interpret the phrases “unfair advantage” and “detrimental to” in *Triomed (Pty) Ltd v Beecham Group plc*<sup>181</sup> and *SAB v Laugh It Off Promotions*.<sup>182</sup> In *Triomed* the court referred to the English *Premier Brands* case,<sup>183</sup> which in turn quotes from two German decisions. In the first German case of *Dimple*<sup>184</sup> the concept “to take unfair advantage of” was explained as follows:

“The Courts have repeatedly held that it constitutes an act of unfair competition to associate the quality of one’s goods or services with that of prestigious competitive products for the purpose of exploiting the good reputation of a competitor’s goods or services in order to enhance one’s promotional efforts”.

In relation to the meaning of the phrase “detrimental to”, the court quoted from another German case, *Quick*:<sup>185</sup>

<sup>179</sup> Webster & Page (1997) par 12.28.

<sup>180</sup> Schwartz & Morfesi (1997) 458.

<sup>181</sup> *Triomed (Pty) Ltd. v Beecham Group plc.* [2001] 2 All SA 126 (T); 2001 2 SA 522 (T) 556H-557B; [2001] F.S.R. 34, 619 par 135-136.

<sup>182</sup> *SAB International t/a Sabmark International v Laugh It Off Promotions* [2003] 2 All SA 454 (C) 459f-461e; *Laugh It Off Promotions CC v SA Breweries International (Finance) BV t/a Sabmark International* [2004] 4 All SA 151 (SCA) 160e-161j.

<sup>183</sup> *Premier Brands UK Ltd. v Typhoon Europe Ltd.*, High Court of Justice, Chancery Division, 21 January 2000 (2000) 23(5) IPD; [2000] F.S.R. 767 at 786, discussed in Chapter 5.7.2.3 “Cases on Section 10(2)” and Chapter 5.7.2.4 “Cases on Section 10(3)” *supra*.

<sup>184</sup> *Dimple*, 1985 GRUR 550.

<sup>185</sup> *Quick*, 1959 GRUR 182.



"The owner of ... a distinctive mark has a legitimate interest in continuing to maintain the position of exclusivity he acquired through large expenditures of time and money and that everything which could impair the originality and distinctive character of his distinctive mark, as well as the advertising effectiveness derived from its uniqueness, is to be avoided ... . Its basic purpose is not to prevent any form of confusion but to protect an acquired asset against impairment".

"Unfair advantage" and "detriment" normally take the form of blurring or tarnishment.<sup>186</sup>

In the one South African case thus far, the court found dilution by tarnishment. This was in the case of *SAB v Laugh It Off Promotions*, followed by the appeal case, *Laugh It Off Promotions v SAB*.<sup>187</sup> The respondent used the words BLACK LABOUR, together with the slogan AFRICA'S LUSTY, LIVELY EXPLOITATION, on T-shirts. The court said that this was likely to take unfair advantage or cause detriment to the applicant's registered trade marks BLACK LABEL, AMERICA'S LUSTY, LIVELY BEER.<sup>188</sup> The appeal court explained that "detriment" encompasses "any detriment" and that detriment, in order to be actionable, has to be unfair. Furthermore, insubstantial prejudice is not enough.<sup>189</sup>

Webster and Page suggest that the following factors could play a role to determine whether the distinctive character or repute of a mark was affected detrimentally by the defendant's use:<sup>190</sup>

- "(a) whether the mark is inherently distinctive (such as an invented mark) or whether it has acquired distinctiveness through use;
- (b) the nature and extent of use of the same or a similar mark by third parties;

<sup>186</sup> See Chapter 3.4.1 "Blurring" and Chapter 3.4.2 "Tarnishment" *supra* for conceptualisation of these terms.

<sup>187</sup> *SAB International t/a Sabmark International v Laugh It Off Promotions* [2003] 2 All SA 454 (C) 461e; *Laugh It Off Promotions CC v SA Breweries International (Finance) BV t/a Sabmark International* [2004] 4 All SA 151 (SCA) 153f, 157d and 161e, where the court said that the message created by the appellant is "particularly unwholesome, unsavoury, or degrading".

<sup>188</sup> See the discussion in Chapter 6.4.4 "Cases" *infra*.

<sup>189</sup> *Laugh It Off Promotions CC v SA Breweries International (Finance) BV t/a Sabmark International* [2004] 4 All SA 151 (SCA) 160c-d.

<sup>190</sup> Webster & Page (1997) par 12.28.



- (c) the degree of recognition of the proprietor's mark in its and the defendant's channels of trade."

In the *Spider* case<sup>191</sup> the court decided that defendant's use of the SPIDER device would be likely to take unfair advantage of, and be detrimental to the reputation of the applicant's registered SPIDER trade mark. Both the SPIDER device and SPIDER trade mark were used in connection with surfboards in the same geographical area. The court also found trade-mark infringement in terms of section 34(1)(a) and also a *prima facie* case of passing off. In this case there was thus clearly a likelihood of confusion and deception. Webster and Page reason that where there was a likelihood of confusion and deception, the use complained of would take unfair advantage of and be detrimental to the reputation of the plaintiff's trade mark and may thus still play an important role in dilution cases.<sup>192</sup>

It is clear from the wording of the Act that only a likelihood of dilution is required and not actual dilution. This was also confirmed in *Laugh It Off v SAB*, where it is said that section 34(1)(c) "does not require proof of actual loss but only the likelihood of loss".<sup>193</sup>

In *Laugh It Off Promotions v SAB* the court made it clear that the phrases "unfair advantage" and "detrimental to" must also be interpreted in the light of the Constitution. Their application must thus not unduly restrict another party's freedom of expression. This, the court said, "requires a weighing-up of the freedom of expression and the trade-mark owner's rights of property and freedom of trade, occupation or profession."<sup>194</sup>

<sup>191</sup> *Safari Surf Shop CC v Heavywater* [1996] 4 All SA 316 (D) 327.

<sup>192</sup> Webster & Page (1997) par 12.28, 6.27.

<sup>193</sup> *Laugh It Off Promotions CC v SA Breweries International (Finance) BV t/a Sabmark International* [2004] 4 All SA 151 (SCA) 161f. See also Webster & Page (1997) par 12.28. This is different from the requirement of actual loss under the US Federal Trade Mark Dilution Act as established in *Moseley v. V Secret Catalogue, Inc.*, 123 S. Ct. 1115 (2003). But see the proposed Trademark Dilution Revision Act of 2005, discussed in Chapter 4.10.4 "Likelihood of Dilution vs Actual Dilution" *supra*, where only a likelihood of dilution is required.

<sup>194</sup> *Laugh It Off Promotions CC v SA Breweries International (Finance) BV t/a Sabmark International* [2004] 4 All SA 151 (SCA) 159f, 160d. See also Chapter 6.4.4 "Cases" *infra*.



# **(vi) Notwithstanding the Absence of Confusion or Deception**

Traditionally it was accepted that dilution could only occur in the absence of confusion or deception. Webster & Page reasons that “while dilution is usually referred to in the context of use on non-competing goods in the absence of a likelihood of confusion or deception there is no reason, in principle, why dilution cannot occur with use on competing goods *where there is a likelihood of confusion or deception*.”<sup>195</sup> It is submitted that this statement negates the clear difference that exists between traditional infringement and dilution. As previously said,<sup>196</sup> dilution can in fact only occur when confusion as to source or origin is absent. If someone is confused, the mark remains the sole identifier of the senior user’s product in his mind. He thus perceives the two marks as representing the same source. Dilution, on the other hand, occurs when the awareness that a specific mark signifies a single product from a single source, changes to an unmistakable awareness that the same mark signifies various things from various sources.<sup>197</sup> In *Triomed v Beecham Group*<sup>198</sup> it was stated that section 34(1)(c) is not intended to protect a proprietor who cannot prove the requirements of section 34(1)(a) or 34(1)(b) of the Act in respect of the same or similar goods, as those for which a trade mark is registered. It is submitted that this statement is correct, notwithstanding the fact that on the face of its wording “any goods or services”, it may at first appear that section 34(1)(c) was also intended to cover this situation.

<sup>195</sup> Webster & Page (1997) par 12.24 (emphasis added). They refer to the case of *Safari Surf Shop CC v Heavywater* [1996] 4 All SA 316 (D) for authority.

<sup>196</sup> See Chapter 3.3 “Traditional Infringement Contrasted with Dilution” *supra*.

<sup>197</sup> Pattishall BW “Dawning Acceptance of the Dilution Rationale for Trade Mark – Trade Identity Protection” (1984) 74 *The Trademark Reporter* 289 at 300, 308; McCarthy JT “The 1996 Federal Anti Dilution Statute” (1998) 16 *Cardozo Arts and Entertainment Law Journal* 587 at 592; McCarthy JT *McCarthy on Trademarks* 4<sup>th</sup> ed (1996) West Group St Paul Minnesota § 24:70.

<sup>198</sup> *Triomed (Pty.) Ltd. v Beecham Group plc.* [2001] 2 All SA 126 (T) 153-154; 2001 2 SA 522 (T) 555D, quoted by Webster & Page (1997) par 12.24.



## (vii) Remedies

The remedies for the infringement of a trade mark, set out in section 34(3), include an interdict, an order to remove the infringing mark from all materials,<sup>199</sup> damages, or in lieu of damages and at the option of the proprietor, a reasonable royalty.<sup>200</sup> The last mentioned remedy will simplify the courts' task of quantifying damages in dilution cases to a great extent.<sup>201</sup>

### 6.4.3 COMPARATIVE ADVERTISING

Comparative advertising is advertising where a party advertises his goods or services by comparing them to the goods or services of another, normally his competitor and often brand leader.<sup>202</sup> Trade-mark law concerns itself with comparative brand advertising, where the trade mark of the other party is used for this purpose. The question is whether comparative brand advertising constitutes trade-mark infringement. If the requirements of the infringement provisions are met, there will be infringement. In the United Kingdom section 10(6) of the Trade Marks Act of 1994 defines what is acceptable comparative advertising, but there is no equivalent of this section in our Act.<sup>203</sup>

Most decided cases on comparative brand advertising fall under section 34(1)(a), because the respective goods are identical.<sup>204</sup> A number of South African authors support the view that section 34(1)(a) can be used to prevent comparative advertising.<sup>205</sup>

<sup>199</sup> Where the infringing mark is incapable of being removed from the material the court may direct that all such material should be delivered to the proprietor of the mark.

<sup>200</sup> S 34(3)(d) provides for a reasonable royalty which would have been payable by a licensee for use of the trade mark.

<sup>201</sup> See Schwartz & Morfesi (1997) 460.

<sup>202</sup> Webster & Page (1997) par 12.18.2. See also Chapter 5.7.2.6 "Comparative Advertising in the UK" *supra*.

<sup>203</sup> See Chapter 5.7.2.6 "Comparative Advertising in the UK" *supra*.

<sup>204</sup> See for example *Abbot Laboratories v UAP Crop Care (Pty.) Ltd.* [1999] 1 All SA 502 (C); 1999 3 624 (C), where the respondent produced a brochure for internal use comparing its PERLAN product with the applicant's PROMALIN product, both agricultural chemicals used in the apple farming sector, and concluding that its product was better. The court found comparative advertising within the ambit of s 34(1)(a).

<sup>205</sup> See *Abbot Laboratories v UAP Crop Care (Pty.) Ltd.* [1999] 1 All SA 502 (C) 509h-510h; 1999 3 624 (C) 632C-633C, where the following authors are cited: OH Dean, CK Job, T Woker and Webster &



Comparative advertising can also be used in relation to similar goods and even dissimilar goods. In the last mentioned situation, trade-mark dilution can occur and thus infringement of section 34(1)(c). Webster and Page use the example of “XYZ shoes, the ROLLS ROYCE of shoes”. Although shoes and motor vehicles fall in totally different classes of goods, there can be infringement in terms of section 34(1)(c), which refers to “any goods”, if the other requirements are met.

#### 6.4.4 CASES

Since the commencement of the current South African Trademarks Act on 1 May 1995 and until the end of 2003<sup>206</sup> there was only one major trade-mark dilution case decided by a South African court. This was the case of *SAB v Laugh It Off Promotions* and the subsequent decision on appeal,<sup>207</sup> which will be discussed here in detail. The only other notable case on the interpretation of section 34(1)(c) was *Bata v Face Fashions*,<sup>208</sup> which only identified the basic elements of a dilution case and clarified the court’s interpretation of “similar”.<sup>209</sup>

The *SAB* case has been described as South Africa’s highest profile trade-mark case ever.<sup>210</sup> The reason can be found in the background to the case. The owner of Laugh It Off Promotions, a close corporation, was Justin Nurse, a former journalism student. He started in 2001 to sell T-shirts bearing disparaging representations of well-known trade marks. His intention was clear – to undermine the value and impact of brands and to use

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Page. The only author holding a contrary view, is R Wheeldon, who relies on the right of freedom of speech and expression in the South African Constitution.

<sup>206</sup> The 31 December 2003 was chosen as the cut-off date for this dissertation. However, on 16 September 2004 the judgment in the appeal case of *SAB and Laugh It Off Promotions* was delivered. In the light of its importance for dilution in the South African context, it was decided to incorporate references to this case in the dissertation.

<sup>207</sup> *SAB International t/a Sabmark International v Laugh It Off Promotions* [2003] 2 All SA 454 (C), *Laugh It Off Promotions CC v SA Breweries International (Finance) BV t/a Sabmark International* [2004] 4 All SA 151 (SCA).

<sup>208</sup> *Bata Ltd. v Face Fashions CC* 2001 1 SA 844 (SCA). See Chapter 6.4.2 “The Dilution Provisions (iii) Use of the Registered Mark or a Mark Similar Thereto” *supra* for more detail.

<sup>209</sup> Smith A “No Laughing Matter: Free Speech, Race Hate and Trademark Politics” (July/August 2003) *Trademark World* 18 at 19.

<sup>210</sup> Smith (2003) 18.



them in political rhetoric. He also threatened to use the media against any trade-mark proprietor who want to take action against him.<sup>211</sup>

The facts can be summed up as follows. SABMiller Finance BV and its predecessors used the CARLING BLACK LABEL trade mark for alcoholic beverages in South Africa through The South African Breweries Limited (SAB). It was widely known that BLACK LABEL beer was largely marketed to the black mass market.<sup>212</sup> The respondent offered for sale T-shirts bearing a mark similar to the applicant's trade mark. The words BLACK LABEL had been replaced by the words BLACK LABOUR. The words CARLING and BEER above and below the mark, were respectively replaced by the words WHITE and GUILT. At the top of the mark the words AMERICA'S LUSTY, LIVELY BEER were replaced with AFRICA'S LUSTY. LIVELY EXPLOITATION SINCE 1652. The words BREWED IN SOUTH AFRICA at the foot of the mark had been replaced by NO REGARD GIVEN WORLDWIDE. The letter type and colours used in both marks, were similar. Applicant applied for an interdict based on the infringement of section 34(1)(c).<sup>213</sup>

The court a quo referred to the justification given by professor Rutherford for the introduction of "anti-dilution"<sup>214</sup> provisions.<sup>215</sup> The only South African cases referred to were *Bata Fashions* and *Triomed v Beecham* for the requirements of section 34(1)(c),

<sup>211</sup> Smith (2003) 18. The only other proprietor who dared to take action was Kirkbi A/S, proprietor of the LEGO trade mark. Laugh It Off did not submit a defence and there was a very quick surrender resulting in the offending products being removed from the market. The *SAB* case was a test case and Nurse certainly made use of the media.

<sup>212</sup> *SAB International t/a Sabmark International v Laugh It Off Promotions* [2003] 2 All SA 454 (C) 460i-j.

<sup>213</sup> The facts of this case are comparable to those of one of the most well-known cases of tarnishment, namely *Coca-Cola Co. v. Gemini Rising, Inc.*, 346 F.Supp. 1183, 175 U.S.P.Q. 56 (E.D.N.Y. 1972), where the court had enjoined the use of the slogan ENJOY COCAINE on T-shirts in the same colour and script as the famous, registered ENJOY COCA-COLA trademarked slogan. Another case in the same genre was *Anheuser-Busch, Inc., v. Andy's Sportswear, Inc.*, 40 U.S.P.Q.2d 1542 (N.D. Cal. 1996), where the well-known brewing company succeeded in a tarnishment case against the manufacturer of sportswear. The plaintiff averred that the BUTTWISER T-shirts sold by the defendant diluted its BUDWEISER trade mark.

<sup>214</sup> It is submitted that the term "anti-dilution" used by Cleaver J throughout the judgment has become obsolete in modern trade-mark law. See for example the comment by Gilson (1999) § 5.12[1][b]. In the Appeal case *Harms JA* also used the term "anti-dilution".

<sup>215</sup> This passage is quoted in Chapter 3.5.2.3 "Policies Underlying Trade-Mark Law" *supra*.



*Bata Fashions* for the interpretation of “similar” and *McDonalds* for the interpretation of “well-known”.

The court a quo held that the following requirements must be met:

- (a) the defendant’s mark must be identical or similar to the plaintiff’s mark;
- (b) the use must be unauthorised, in the course of trade and likely to take unfair advantage of or be detrimental to the distinctive character or repute of the plaintiff’s mark; and
- (c) the plaintiff’s registered mark must be well known in the Republic.

Regarding the first requirement, Justice Cleaver followed the interpretation given in *Bata Fashions* to the term “similar”.<sup>216</sup> *In casu* he found that there was a “marked resemblance or likeness” between the two marks. He said that the respondent’s mark referred directly to the applicant’s mark – the colouring, lettering and overall effect were similar.<sup>217</sup>

Use of the mark was furthermore clearly unauthorised and respondent used the mark in the course of trade, namely in order to promote the sale of its T-shirts<sup>218</sup> and thus for commercial gain.

The third requirement, namely that the mark must be well known, was considered with reference to the interpretation of “well known” in the *McDonalds* case.<sup>219</sup> This case concerned the interpretation of “well known” in the context of section 35, but in the *Triomed* case it was accepted that the same test could be used to determine “well known” in section 34(1)(c). Evidence of considerable advertising was placed before the court.

<sup>216</sup> *SAB International t/a Sabmark International v Laugh It Off Promotions* [2003] 2 All SA 454 (C) 458d-g.

<sup>217</sup> Respondent did not deny that the mark used had a marked resemblance or likeness to applicant’s mark.

<sup>218</sup> *SAB International t/a Sabmark International v Laugh It Off Promotions* [2003] 2 All SA 454 (C) 458h-i, 461h.

<sup>219</sup> *SAB International t/a Sabmark International v Laugh It Off Promotions* [2003] 2 All SA 454 (C) 458i-459f.



From this information the court inferred that the applicant had proved that its marks are well known.

The main issue<sup>220</sup> to be considered was whether respondent's use of the mark was likely to take unfair advantage of or be detrimental to the distinctive character or repute of the plaintiff's mark.<sup>221</sup> The court a quo referred to two types of dilution, blurring and tarnishing.<sup>222</sup> No direct evidence was given by the applicant as to the likelihood of dilution, but counsel for the applicant averred that tarnishment of applicant's mark was likely to occur. It was submitted that respondent's T-shirts conveyed the message that the applicant had exploited and continued deliberately to exploit black labour and was guilty of racial discrimination.<sup>223</sup> The appeal court also emphasised the importance of the message that is conveyed. The issue is not what was intended by the appellant, but "what he in fact said or did".<sup>224</sup> The court then found that the message conveyed is that "since time immemorial SAB has exploited and is still exploiting black labour".<sup>225</sup> The court, furthermore, declared that in the light of the history of the country, this message could be seriously damaging to the respondent's trade marks.

The court a quo referred to Webster and Page, who in their discussion of tarnishment, say that "it ought to be relatively easy to identify dilution by tarnishment where the use is obviously offensive". They refer back to their discussion of section 10(12) where the words "likely to give offence to any class of persons" are interpreted.<sup>226</sup> Justice Cleaver

<sup>220</sup> The Supreme Court of Appeal accepted that all the other requirements have been established and that this issue was the only one that remained. See *Laugh It Off Promotions CC v SA Breweries International (Finance) BV t/a Sabmark International* [2004] 4 All SA 151 (SCA) 160e.

<sup>221</sup> *SAB International t/a Sabmark International v Laugh It Off Promotions* [2003] 2 All SA 454 (C) 459f-461e.

<sup>222</sup> In referring to "tarnishing" the court adopted the terminology used in the *Triomed* judgment. It is submitted that the term should be "tarnishment" as used internationally in handbooks, reference articles, cases, etc. and also in Webster & Page. In the judgment on appeal the SCA used the correct terminology and referred to "tarnishment".

<sup>223</sup> *SAB International t/a Sabmark International v Laugh It Off Promotions* [2003] 2 All SA 454 (C) 460f-g.

<sup>224</sup> *Laugh It Off Promotions CC v SA Breweries International (Finance) BV t/a Sabmark International* [2004] 4 All SA 151 (SCA) 161b.

<sup>225</sup> *Laugh It Off Promotions CC v SA Breweries International (Finance) BV t/a Sabmark International* [2004] 4 All SA 151 (SCA) 161c, 160.

<sup>226</sup> Webster & Page (1997) par 6.9.



in the *SAB* case came to the conclusion that “from a comparison of the marks and respondent’s understanding of as well as its purpose in using the applicant’s marks, ... the applicant has established that such use would be likely to take unfair advantage or be detrimental to the distinctive character or repute of the plaintiff’s registered marks”.<sup>227</sup>

A constitutional defence was, however, raised by the respondent in the lower court. It relied on its right to freedom of artistic activity contained in the right to freedom of speech and expression conferred by section 16 of the Republic of South Africa Constitution Act 108 of 1996.<sup>228</sup> This was the first time that a constitutional defence was raised in a major trade-mark dispute in South Africa.<sup>229</sup> The judge acknowledged that “the dividing line between freedom of speech and the statutory protection afforded the applicant is a thin one”. He however concluded that the respondent transgressed this line.<sup>230</sup> He found *inter alia* that respondent’s conduct borders on hate speech and was aggravated by using the race factor.<sup>231</sup>

The constitutional defence was also raised in the Supreme Court of Appeal. The court first stated that intellectual property rights are not immune to constitutional challenge. The question is to what extent guarantees of freedom of expression affect intellectual property rights.<sup>232</sup> The court in the first place gave examples of free speech that do not impinge on the trade-mark owner’s rights.<sup>233</sup> The court then found that “unfair or unjustified racial slurs” should not be endorsed, especially in South Africa. Predatory

<sup>227</sup> *SAB International t/a Sabmark International v Laugh It Off Promotions* [2003] 2 All SA 454 (C) 461e.

<sup>228</sup> *SAB International t/a Sabmark International v Laugh It Off Promotions* [2003] 2 All SA 454 (C) 462h-i. This defence was also raised in the appeal case, *Laugh It Off Promotions CC v SA Breweries International (Finance) BV t/a Sabmark International* [2004] 4 All SA 151 (SCA) 162a-166f.

<sup>229</sup> Alberts W “Who’s Laughing Now? Dilution and the Constitution in South Africa” (July/August 2003) *Trademark World* 20. See also Webster & Page (1997) par 1.9.

<sup>230</sup> See the reasons for this conclusion at *SAB International t/a Sabmark International v Laugh It Off Promotions* [2003] 2 All SA 454 (C) 462j-463e.

<sup>231</sup> SAB led evidence to show that it had gone to substantial lengths to avoid racial discrimination and that it have a strong equal opportunity employment policy. See Smith (2003) 18.

<sup>232</sup> *Laugh It Off Promotions CC v SA Breweries International (Finance) BV t/a Sabmark International* [2004] 4 All SA 151 (SCA) 156d.

<sup>233</sup> *Laugh It Off Promotions CC v SA Breweries International (Finance) BV t/a Sabmark International* [2004] 4 All SA 151 (SCA) 162c-f.



intent was also a factor taken into account by the court.<sup>234</sup> The appellant further submitted that the message on the T-shirts was a parody<sup>235</sup> of SAB's trade marks. After studying examples from other jurisdictions, the court decided that "appellant's reliance on the freedom of expression is misplaced. It did not exercise its freedom, it abused it."<sup>236</sup>

Smith considers the judgment in the lower court to be a landmark in South African trade-mark law with regard to the dilution of well-known trade marks. He pointed out that the court did not preclude parody or fair social statement, but did indicate that one cannot freely trade on another's well-known trade mark.<sup>237</sup>

With reference to trade-mark law in the United States, Justice Cleaver said that "the question of confusion in the minds of the public also plays a role in the anti-dilution proceedings in the US, something which does not apply in this country".<sup>238</sup> This is not entirely true. Although, even after acceptance of the Federal Trademark Dilution Act in the US, courts still struggle to keep the notion of dilution apart from infringement, a few recent court decisions recognised that dilution requires a different state of mind.<sup>239</sup>

## 6.5 THE NEED FOR DILUTION PROTECTION

When looking at the different kinds of damages flowing from dilution described below, it is clear that it is essential that the law provide protection against dilution.<sup>240</sup>

1. If a junior user started to use or even registered a well-known trade mark in a specific jurisdiction, entry of the owner of the well-known mark in that

<sup>234</sup> *Laugh It Off Promotions CC v SA Breweries International (Finance) BV t/a Sabmark International* [2004] 4 All SA 151 (SCA) 163c.

<sup>235</sup> Parody *per se* is not a defence to section 34(1)(c). See Webster & Page (1997) par 1.9.

<sup>236</sup> *Laugh It Off Promotions CC v SA Breweries International (Finance) BV t/a Sabmark International* [2004] 4 All SA 151 (SCA) 163f-166f.

<sup>237</sup> Smith (2003) 19.

<sup>238</sup> *SAB International t/a Sabmark International v Laugh It Off Promotions* [2003] 2 All SA 454 (C) 462e-f.

<sup>239</sup> See Chapter 4.10.5 "'Confusion' Under The Federal Act" *supra*.

<sup>240</sup> Mostert (1996) 138-139.



jurisdiction is blocked. It will make it impossible for him to use and exploit his own trade mark within that jurisdiction. Another possibility is that someone without authority starts to use the well-known mark on non-competing goods, he in that way prevents the owner from expanding his line of business under his own well-known trade mark.

2. Where an imitator uses a well-known trade mark on non-competing, but related goods, consumers can wrongly assume that there is a business connection between the imitator and the owner of the well-known trade mark or that the goods are sponsored by the owner of the well-known mark.
3. Dilution of the famous mark can occur, in the absence of any likelihood of confusion.
4. Damages may also be caused in the form of lost licence fees.<sup>241</sup>

The challenge is to find the most effective, least confusing description of the harm caused by dilution, so that the courts can interpret and apply it in a clear and consistent way. In the final Chapter a comparison between the different legal systems that were examined in this dissertation will be made. In the light of this comparison guidelines will be suggested in order to promote the protection of registered trade marks against dilution.

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<sup>241</sup> Mostert (1996) 138-139.



## CHAPTER 7

### REFINING STATUTORY DILUTION PROTECTION IN THE LIGHT OF THE COMPARATIVE SURVEY

#### 7.1 INTRODUCTION

Although trade-mark law historically has been very territorially orientated, protection from dilution has become a well-recognised and accepted doctrine internationally.<sup>1</sup> The traditions of each country, however, result in somewhat different approaches to protection.<sup>2</sup> The aim is to reward the creativeness and effort required to make a trade mark famous over a period of time. It protects the symbol of goodwill that the trade mark has come to represent.<sup>3</sup> However, to prohibit all junior uses of a mark would be intolerably harsh. Indiscriminate application by courts and lawyers who tag dilution counts onto every infringement claim, discredited the dilution doctrine. This need not, however, compel one to reject totally any form of dilution protection, for reasonable limits can be imposed on the doctrine.<sup>4</sup> Furthermore, the dilution theory addresses a real injury, but, as has been seen, the doctrine is conceptually difficult to apply. The injury caused by dilution is also difficult to measure and therefore the extent of the injury is difficult to quantify or prove. This Chapter will compare the current situation regarding

<sup>1</sup> Dilution statutes commenced in the different jurisdictions discussed, within a period of less than 2 years. The United Kingdom Trade Marks Act came into force on 31 October 1994, the South African Trade Marks Act took effect on 1 May 1995, the new Benelux Trade Marks Act became effective on 1 January 1996 and the Federal Trademark Dilution Act was enacted on 16 January 1996. The Trademark Directive, however, dated back to 21 December 1989 and the Regulation on the Community Trade Mark was adopted on 20 December 1993. It should also be remembered that dilution protection in the Benelux countries dated back to 1 January 1971, when the Uniform Benelux Trade Marks Act came into effect.

<sup>2</sup> Welkowitz DS "Protection against Trademark Dilution in the U.K. and Canada: Inexorable Trend or will Tradition Triumph?" (2000) 24 *Hastings International and Comparative Law Review* 63 at 64. Cultural and legal historical norms also play a role in determining the extent of trade-mark protection in the different countries. See Welkowitz (2000) 69.

<sup>3</sup> Casparie-Kerdel S "Dilution Disguised: Has the Concept of Trade Mark Dilution Made its Way into the Laws of Europe?" (2001) 4 *European Intellectual Property Review* 185 at 193.

<sup>4</sup> Compare Note "Dilution: Trade Mark Infringement or Will-o'-The-Wisp?" (1964) 77 *Harvard Law Review* 520; reprinted in (1964) 54 *The Trademark Reporter* 184, 196.



the interpretation and application of the dilution doctrine in South African law with the United States law and then with the law of the European Union. Recommendations will then be made to aid South African courts in the future interpretation and application of the dilution provisions. Minor amendments to the legislation will also be proposed, with a view to promoting greater clarity.

## **7.2 SOUTH AFRICA'S DILUTION PROVISIONS COMPARED TO THOSE OF US FEDERAL LAW**

### **7.2.1 INTRODUCTION**

One commendable point of the US trade-mark system is that in legal doctrine dilution has always been clearly distinguished from traditional infringement based on consumer confusion. The portion of the Lanham Act which caters for traditional infringement requires a showing of confusion, regardless of the similarity or lack thereof between the goods of the parties. The dilution section also does not require that the offending goods be either similar or dissimilar. In traditional trade-mark infringement law, based on fraud and deceit, the public is protected from mistaken consumer choices and the trade-mark owner is protected from loss of business to competitors and harm to the goodwill of his business. Dilution law is there to protect the uniqueness of the trade mark, by preserving the distinctive nature and commercial goodwill of the mark itself.<sup>5</sup> Therefore, there are two different rationales for the protection of the two different types of infringement, each with its own conditions and restrictions. Dilution protection is deliberately incorporated in a separate provision of the Lanham Act, added by the Federal Trademark Dilution Act, from those dealing with traditional infringement.<sup>6</sup>

In contrast, protection against traditional confusion-based trade-mark infringement and protection against dilution are both incorporated in the same infringement section in the

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<sup>5</sup> Casparie-Kerdel (2001) 185, 188, 194.

<sup>6</sup> The dilution provisions are recorded in The Federal Trademark Dilution Act of 1995, Pub. L. No. 104-98, 109 Stat. 985 (1995) (codified as amended at 15 USC § 1125, 1127 (West 1996)). It is incorporated in the Lanham Act as § 43(c). The infringement provisions are found in § 43(a) of the Lanham Act.



South African Trademarks Act.<sup>7</sup> Although the internal structure of the section follows quite logically from narrow protection to much wider protection, two different categories with separate standards for infringement are created. Firstly, infringement where there is deception or confusion and secondly, infringement notwithstanding the absence of deception or confusion. Although confusion is expressly not required for a finding of dilution, the fact that both provisions are incorporated in the same section will definitely hamper the development of dilution as a remedy in its own right. Therefore it is suggested that dilution must clearly be distinguished from traditional infringement based on consumer confusion. It would thus be more logical to divide the protection against infringement into separate sections based on this distinction.

### 7.2.2 THE DILUTION PROVISIONS

The basic characteristics of a dilution claim under the Federal Trademark Dilution Act<sup>8</sup> are the following:

1. The protection is available for both registered and unregistered marks.
2. The mark must be famous to qualify for protection.
3. Defendant must make commercial use of plaintiff's mark in commerce, which means that defendant must use the mark as a trade mark.
4. Dilution covers blurring, tarnishment, disparagement and diminishment of the distinctive quality of the mark.
5. Dilution protection is provided regardless of the presence or absence of competition.
6. Dilution protection is provided regardless of the presence or absence of confusion, mistake or deception.
7. There are certain statutory exceptions to or limitations of liability for dilution.

<sup>7</sup> S 34(1) of Act 194 of 1993.

<sup>8</sup> See The Federal Trademark Dilution Act of 1995, Pub. L. No. 104-98, 109 Stat. 985 (1995) (codified as amended at 15 USC § 1125, 1127 (West 1996)) and Chapter 4.7 "The Federal Trademark Dilution Act of 1995" *supra*.



The requirements of a dilution claim under the South African Trademarks Act can be summed up as follows:<sup>9</sup>

1. The mark must be registered to qualify for dilution protection.
2. The other mark must be identical or similar.
3. Protection applies against the use of the other mark in relation to “any goods or services”.
4. The registered mark must be well known in the Republic.
5. The use complained of must be likely to take unfair advantage of or be detrimental to the distinctive character or repute of the mark.
6. The use complained of must be in the course of trade.
7. That use must be unauthorised.
8. Protection is available notwithstanding the absence of confusion or deception.

While there seem to be quite a few points of resemblance between the Federal Act and the South African Act, in spite of the completely different ways in which the dilution provisions are written, there are nevertheless important substantive differences. The principal differences between the provisions are in the first place that the Federal Act explicitly refers to the dilution of a mark and also contains a definition of dilution, whereas the South African Act never uses the term “dilution”. Dilution in the South African context is inferred from the way in which the harm is described. Secondly, the Federal Act only protects famous marks, while the requirement in the South African Act is that the mark must be well known to qualify for protection. Thirdly, no specific exceptions are listed in the South African Act.

#### **(i) Well known/famous**

In many commentaries on and discussions of dilution as a concept, there is a reluctance to apply the concept freely to all marks. This emerges from a fear of granting a monopoly in the language, which will inhibit free commercial use. This fear is largely absent in

<sup>9</sup> See s 17(10) & 34(1)(c) and Chapter 6.4.2 “The Dilution Provisions” *supra*.



traditional infringement cases, as a likelihood of confusion is required, which prevents excessive protection of trade marks. The dilution provisions are potentially limitless in scope as they can be used in a non-competitive situation and in the absence of confusion or deception. The requirement of a certain degree of fame or repute is one logical way to limit the application of the dilution doctrine.<sup>10</sup>

US State Dilution laws, mostly based on the Model State Trademark Bill, merely refer to "dilution of the distinctive quality of a mark...", thereby only requiring a mark to be distinctive to qualify for protection against dilution. The Federal Trademark Dilution Act, however, requires fame as prerequisite for protection and even gives a list of factors to consider in the determination of whether a mark is famous or not.

The dilution provisions in the South African Act, namely sections 10(17) and 34(1)(c), require a mark to be well known. There is however no definition of the concept or guidelines for its interpretation. The only indication as to what is meant by the concept "well known" is found in section 35(1A), but as explained above,<sup>11</sup> there are good reasons why this description should not be applied to determine the meaning of "well known" in the context of the dilution provisions. However, in the *Triomed* case<sup>12</sup> the court adopted the interpretation given to the term "well known" in the *McDonald's* case<sup>13</sup> in the context of section 35 for purposes of section 34(1)(c) as well. This approach was also followed in *SAB v Laugh It Off*.<sup>14</sup> This test may be too lenient in the light of the far-

<sup>10</sup> "In order to combat the possibility of virtual trade-mark monopolies, commentators have stressed the need for strict adherence to the fame requirement embodied in the FTDA." See Belongia HL "Why is Fame Still Confusing? Misuse of the 'Niche Market Theory' Under the Federal Trademark Dilution Act" (2002) 51 *DePaul Law Review* 1159 at 1161.

<sup>11</sup> See Chapter 6.4.2 "The Dilution Provisions (iv) Well known" *supra*.

<sup>12</sup> *Triomed (Pty.) Ltd. v Beecham Group plc.* [2001] 2 All SA 126 (T) 154; 2001 2 SA 522 (T) 556C-D; [2001] F.S.R. 34, 618 par 132. See Chapter 6.4.2 "The Dilution Provisions (iv) Well known" *supra*.

<sup>13</sup> *McDonald's Corporation v Joburgers Drive-Inn Restaurant (Pty.) Ltd. and another; McDonald's Corporation v Dax Prop CC and another; McDonald's Corporation v Joburgers Drive-Inn Restaurant (Pty.) Ltd. and Dax Prop CC* 1997 1 SA 1 (A); [1996] 4 All SA 1 (A). See Chapter 6.4.2 "The Dilution Provisions (iv) Well known" *supra*.

<sup>14</sup> *SAB International t/a Sabmark International v Laugh It Off Promotions* [2003] 2 All SA 454 (C) 458i-459b. See Chapter 6.4.2 "The Dilution Provisions (iv) Well known" & Chapter 6.4.4 "Cases" *supra*.



reaching implications of a dilution action as appears from the discussion above.<sup>15</sup>

It is submitted that although the term "famous" as used in the Federal Trademark Dilution Act requires a greater reputation than "well known" used in section 34(1)(c), the eight-factor test set out in the Federal Trademark Dilution Act<sup>16</sup> can be applied with great success in the South African law in determining the concept of "well known" for purposes of the dilution provisions.<sup>17</sup>

These factors are:<sup>18</sup>

- a) *The degree of inherent or acquired distinctiveness.* Although distinctiveness is already a requirement for registration as a trade mark and only registered marks are protected in terms of the South African Act, this factor could still be relevant. A higher degree of acquired distinctiveness will have more probative value than mere inherent distinctiveness.<sup>19</sup>
- b) *The extent to which the mark is used and the duration of the use.*
- c) *The duration and extent of advertising and publicity.* Where the mark for which protection is sought, has not yet been used in a specific market, "spillover advertising" in the form of television broadcasts, televised sporting events sponsored by the trade-mark owner, international magazines, in-flight magazines and advertisements in international films

<sup>15</sup> See the first paragraph of this section *supra*.

<sup>16</sup> This test is practically the same as the practice guidelines for determining reputation for the purposes of s 10(3) of the United Kingdom Act of 1994 suggested by the International Trademark Association to the United Kingdom Government. These factors are listed in Webster CE & Morley GE *Webster & Page South African Law of Trade Marks, Unlawful Competition, Company Names and Trading Styles* 4<sup>th</sup> ed (1997) Butterworths Durban par 12.27. For a discussion see Chapter 4.7.2 "Discussion of the Different Factors" *supra*. These factors are also similar to the relevant factors in a passing-off action.

<sup>17</sup> This is also the submission of Webster & Page (1997) par 12.27.

<sup>18</sup> Most of these factors are also listed in the Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks adopted by the Assembly of the Paris Union for the Protection of Industrial Property and the General Assembly of the WIPO at the Thirty-Fourth Series of Meetings of the Assemblies of the Member States of WIPO 20 to 29 September 1999, WIPO Geneva 2000 (r:\intranet\www\eng\infbroch\833(e).doc). See the discussion in Chapter 6.3.4.1 "The Paris Convention" *supra*.

<sup>19</sup> Mostert FW "Well-known and Famous Marks: is Harmony Possible in the Global Village?" (1996) 86 *The Trademark Reporter* 103 at 112.



can be taken into account.<sup>20</sup> Presentation of the goods to which the mark applies at fairs and exhibitions can also be taken into account.<sup>21</sup>

- d) *The geographical extent of the trading area in which the mark is used.* Use in a substantial portion of the Republic may be required, but there could be exceptions. A good example of exceptional circumstances is to be found in *Safari Surf Shop*, where the mark was only well known throughout surfing circles in the Republic and the court found it sufficient for the purposes of section 34(1)(c).<sup>22</sup> The applicant and respondent however used their marks on the same goods in the same geographical areas. Had the other factors in the test been considered as well, the court would still have reached the same result.
- e) *The channels of trade for the goods or services for which the mark is used.*
- f) *The degree of recognition of the mark in the trading areas and channels of trade of both parties.* The greater the recognition of the plaintiff's mark in the defendant's trading areas, the greater the likelihood that the distinctive quality of the mark will be negatively affected. Direct evidence from licensees, distributors and consumers is best, but indirect evidence can be obtained through surveys and opinion polls.<sup>23</sup>
- g) *The nature and extent of use of the same or a similar mark by third parties.* Where the same mark is used by several people, it is unlikely that it will become more diluted by the conduct of another third-party user.
- h) *The existence of federal registration.* This factor is not relevant in the South African context, as the Act only applies to registered marks.

Mostert adds another three factors:

- a) *The nature of the goods.*

<sup>20</sup> Mostert (1996) 112.

<sup>21</sup> See art. 2(1)(b)(3) of the Joint Recommendation.

<sup>22</sup> *Safari Surf Shop CC v Heavywater* [1996] 4 All SA 316 (D). See Chapter 6.4.2 "The Dilution Provisions (iv) Well known" *supra*.

<sup>23</sup> See Joint Recommendation p14 par 2.3.



- b) *The degree to which the reputation of the mark symbolises quality of class.*  
Quality is especially important in tarnishing cases.
- c) *The extent of the commercial value<sup>24</sup> attributed to the mark.*

He submits that all these factors can be of value to assist trade-mark authorities and courts in determining whether a mark is well-known.<sup>25</sup>

Whether a mark is well-known or not remains a question of fact and therefore each case should be considered on its own facts, taking into account any special circumstances. Not any one of the listed factors should be decisive on its own, although certain factors will be more important depending on the circumstances of each case.<sup>26</sup> This list of factors is non-exhaustive and only serves as a guideline. They are however of great importance in the light of international trade and the need for effective recognition and protection of well-known marks.

Mostert asserts that if clarity existed as to what is protected by a claim for trade-mark dilution, it would become clear that requirements such as fame and related concepts are redundant and that they in fact hinder the operation of the dilution doctrine.<sup>27</sup> He contends that a claim for trade-mark dilution protects the advertising value of a trade mark. Therefore, a plaintiff has to prove that his trade mark possesses commercial magnetism and advertising value and that these values were blurred or tarnished by defendant's unauthorised use. Even a lesser known trade mark possesses commercial magnetism and advertising value and therefore it is unnecessary to require a certain degree of fame.<sup>28</sup>

<sup>24</sup> The value associated with the mark is also one of the factors listed in the Joint Recommendation to determine whether a mark is well known.

<sup>25</sup> Mostert (1996) 111-113. Mostert examined the following statutes, agreements and other sources as authority for this proposition: § 43(c)(1) of the Lanham Act, the Cartagena Agreement, the Industrial Property Code of Brazil, the Canadian Trade-marks Act, cases in Colombia, France and Mexico, practice procedures of the Trade Mark Offices in China and the Report of WIPO's Committee of Experts of Well-Known Marks.

<sup>26</sup> Mostert (1996) 113, 114.

<sup>27</sup> Mostert FW "Trade Mark Dilution and Confusion of Sponsorship in United States, German and English Law" (1986) 17 *International Review of Industrial Property and Copyright Law* 80 at 91.

<sup>28</sup> Mostert admits that the more renowned a mark is, the easier it would be to prove that such mark possesses commercial magnetism and advertising value. Mostert (1986 *IIC*) 91-92. He relies on the



Martino suggests that marks which are candidates for dilution relief ought to be registered, possibly in a separate "dilution register".<sup>29</sup> Registration would enhance visibility making it easier to identify these marks and to challenge or to enter into transactions with their owners. It would also ward off potential competitors. This option is however not viable in the South African context. Firstly, a set of guidelines to determine which marks qualify to be registered in this special register would still be needed. Secondly, every application for the entry of a mark in the special register will have to be examined according to the guidelines. The administrative burden would be immense. Finally, it could take several months and even years from the date of application to registration and in the meanwhile the marks will not be protected from dilution.

**(ii) Unfair advantage or detriment to distinctive quality or repute/dilution of distinctive quality**

The quality of a trade mark that is protected by the dilution provisions is its commercial magnetism and selling power. These attributes flow from the distinctive character or repute of the mark. Unfair advantage or detriment normally takes the form of blurring or tarnishment. Blurring and tarnishment basically protect two separable but related components of advertising value. The product identification or image may become blurred, while the positive associations of a mark can be tarnished. Blurring has been defined in different ways. It can best be described as the whittling away of an established trademark's selling power and value or damage to the uniqueness or distinctiveness of the trade mark and its capacity to identify source or loss of its ability to serve as a unique identifier.<sup>30</sup> Tarnishment occurs where the quality which one associates with a trade mark is impaired. This can happen where the trade mark is linked to products of shoddy

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following statement made by the court in *Wedgewood Homes Inc v. Lund* 659 P.2d 377, 381; 222 U.S.P.Q. 446, 450 (Or. Sup. Ct. 1983): "In summary, it is not the manner by which distinctiveness is acquired nor the span of a mark's notoriety but rather the degree of advertising value the mark has gained which determines the applicability of ORS 647.107 [the Oregon dilution statute]."

<sup>29</sup> Martino T *Trademark Dilution* (1996) Clarendon Press Oxford (1996) 85.

<sup>30</sup> See Chapter 3.4.1 "Blurring" *supra*.



quality, or is portrayed in an unwholesome or unsavory context, or linked with obscenity or sexual or illegal activity, which all give rise to unflattering thoughts about the plaintiff's product. The senior trade mark's reputation and commercial value are diminished in this way.<sup>31</sup>

To date, only one South African case has considered the phrase "likely to take unfair advantage of or be detrimental to the distinctive character or repute of the plaintiff's mark".<sup>32</sup> This was clearly a case of tarnishment. The court refers to use that is obviously offensive. The court a quo basically took two factors into account for a finding of a likelihood of dilution, the similarity of the marks and predatory intent. Predatory intent also played an important role in the decision of the appeal court.

The Federal Trademark Dilution Act has been criticised, amongst other grounds, for its lack of an appropriate standard by which to measure dilution. The interpretation of the words "causes dilution" in the Act was also an issue in United States law. Some circuit courts required proof of actual dilution (or actual harm to the mark's selling power), while others found a likelihood of dilution sufficient. In 2003 the whole debate was then brought to a head by the Supreme Court's decision of *Moseley v V Secret Catalogue*.<sup>33</sup> The court held that the Federal Trademark Dilution Act unambiguously requires a showing of actual dilution.<sup>34</sup> Mere mental association between the junior user's mark and the famous mark is not a sufficient ground to establish actionable dilution. The Supreme Court though failed to provide guidance on what proof must be offered to show actual dilution. In 2005 the Trademark Dilution Revision Act was submitted to Congress.<sup>35</sup> This Act explicitly defines dilution as use of a mark "likely to cause dilution by blurring or dilution by tarnishment". Actual harm is therefore not a prerequisite to injunctive relief.

<sup>31</sup> See Chapter 3.4.2 "Tarnishment" *supra*.

<sup>32</sup> *SAB International t/a Sabmark International v Laugh It Off Promotions* [2003] 2 All SA 454 (C); *Laugh It Off Promotions CC v SA Breweries International (Finance) BV t/a Sabmark International* [2004] 4 All SA 151 (SCA). See Chapter 6.4.4 "Cases" *supra*.

<sup>33</sup> *Moseley v. V Secret Catalogue, Inc.*, 123 S. Ct. 1115 (2003). See Chapter 4.10.4 "Likelihood of Dilution vs Actual Dilution" *supra*.

<sup>34</sup> *Moseley v. V Secret Catalogue, Inc.*, 123 S. Ct. 1115 at 1124 (2003).

<sup>35</sup> Trademark Dilution Revision Act of 2005 HR Rep No 683, (9 February 2005).



It is submitted that the likelihood of dilution standard, as followed in the *Nabisco* decision<sup>36</sup> and proposed in the Trademark Dilution Revision Act, is the better interpretation. Dilution has been described as an infection, which, if allowed to spread would inevitably destroy the advertising value of the mark.<sup>37</sup> In other words, dilution causes a gradual type of harm. It is submitted that to wait for actual harm to occur, will be too late, as by then the advertising value of the mark could already have suffered irreparable harm. Using the actual dilution standard will also in most cases leave the senior user without the possibility of compensation as the statute only provides for injunctive relief, if there was no intent on the part of the junior user. The junior user will also be prejudiced as he will have to invest huge amounts of money to launch and put his product on the market, not knowing whether his use will be prevented by an injunction at a later stage.

The South African Act uses the words "would be likely to take unfair advantage", thus referring expressly to a likelihood of dilution and not actual dilution. It is submitted that the interpretation of this phrase ought not to become an issue in South African law. As has been reasoned above, regarding the interpretation of the words "causes dilution" in the US law, the "likelihood of dilution standard" is more in line with the nature of dilution and should be followed.

To measure the likelihood of dilution different tests are used in the United States.<sup>38</sup> In a few cases the Sweet test<sup>39</sup> is still used, in *Nabisco* an expansive multi-factor test was formulated, while others use only some of these factors. The Sweet test and the *Nabisco* factors have both been criticised for bringing confusion factors into the dilution theory, thus frustrating the inquiry. Dilution and traditional infringement require two different

<sup>36</sup> *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 1999 U.S. App. LEXIS 20786, 51 U.S.P.Q.2d (BNA) 1882 (2<sup>nd</sup> Cir. 1999). See Chapter 4.10.4 "Likelihood of Dilution vs Actual Dilution" *supra*.

<sup>37</sup> H.R. Rep. No. 104-374 at 3 (1995).

<sup>38</sup> See Chapter 4.10.4 "Likelihood of Dilution vs Actual Dilution" *supra*.

<sup>39</sup> See the case of *Mead Data Central, Inc. v. Toyota Motor Sales, U.S.A., Inc* 875 F.2d 1026, 1032, 10 U.S.P.Q.2d 1961 (2<sup>nd</sup> Cir. 1989) in Chapter 4.3.3.1 "Second Circuit Cases" *supra* for the formulation of the Sweet test.



mind sets, as it is impossible to cause both confusion and dilution in the mind of any one person at the same time.<sup>40</sup> Again and again courts in the US tried to formulate a workable test for trade-mark dilution, but all their attempts were criticised. In the proposed Trademark Dilution Revision Act of 2005, six factors are listed that may be considered to determine "dilution by blurring".<sup>41</sup> This Act was introduced after the completion of this dissertation,<sup>42</sup> but is interesting to note that these are the exact factors proposed by the author to determine a likelihood of dilution.

It is suggested that the following factors should, in principle,<sup>43</sup> be used to determine the likelihood of dilution: mental association, fame, distinctiveness, similarity of marks and third-party use. Predatory intent may also in some cases play a role. The other factors used in the Sweet and *Nabisco* tests are only relevant for a traditional trade-mark infringement inquiry and are therefore not appropriate in a dilution inquiry. The factors which are relevant for determining likelihood of dilution in the South African context, will now be briefly considered.

1. *Mental association*: This factor should be the most significant in measuring dilution. A mental association can be determined by assessing the relationship created in the mind of the public between the two marks. The question can be asked whether consumers, when seeing the junior mark, will be reminded of the senior mark.<sup>44</sup> If consumers associate the two marks, the strength of the senior mark is weakened. If there is no mental association between the marks, there is

<sup>40</sup> See Chapter 3.3 "Traditional Infringement Contrasted with Dilution" *supra*.

<sup>41</sup> These factors are (i) The degree of **similarity** between the mark or trade name and the famous mark; (ii) The degree of inherent or acquired **distinctiveness** of the famous mark; (iii) The extent to which the owner of the famous mark is engaging in substantially **exclusive use** of the mark, [ie third-party usage]; (iv) The degree of recognition of the famous mark, [ie **fame**]; (v) Whether the user of the mark or trade name **intended** to create an association with the famous mark, [ie intent]; and (vi) Any actual **association** between the mark or trade name and the famous mark. The court may still consider other "relevant factors".

<sup>42</sup> The dissertation was submitted for examination on 1 October 2004.

<sup>43</sup> As appears from the discussion *infra*, not all these factors are relevant in the South African context.

<sup>44</sup> Some commentators interpret the decision of the Supreme Court of the USA in the *Moseley* case as saying that the mental association must run in the other direction: the question is not whether people associate the junior mark with the famous mark, but whether the senior mark reminds people also about the junior mark. See Chapter 4.10.4 "Likelihood of Dilution vs Actual Dilution" *supra*. This was said



*de facto* no dilution and therefore no claim. The more sophisticated the consumer, the more likely the consumer will make the mental leap between the marks. Therefore in this sense consumer sophistication could also play a role. Well-constructed consumer surveys could be used to determine a likelihood of mental association, but the court should not hesitate to act upon their own reaction when viewing the two marks.<sup>45</sup> If actual association can be proven, it will surely carry much weight in the dilution enquiry.<sup>46</sup> This though should not be the criterion for association.

2. *Renown of the senior mark:* The Federal Trademark Dilution Act requires a mark to be famous, while its South African counterpart requires the senior mark to be well known.<sup>47</sup>
3. *Distinctiveness:* Distinctiveness reflects the inherent strength or weakness of a mark. Distinctiveness can be inherent or acquired through a secondary meaning. In the United States this is a separate and important requirement in a dilution claim.<sup>48</sup> In South Africa, however, the Act only protects distinctive marks, thus making this inquiry unnecessary.
4. *Similarity of the marks:* The likelihood that consumers will perceive the junior mark to be similar to the senior mark can be determined. Although the Federal Trademark Dilution Act does not specifically require similarity of marks, it is evident from the case law that the marks must be identical or similar for dilution to occur.<sup>49</sup> It seems if "substantial" similarity will be required. The South

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in the context of actual dilution – the standard for dilution set by the Supreme Court – and therefore it is submitted that the test is too strict for a likelihood of dilution enquiry.

<sup>45</sup> See the discussion of *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Development* 935 F.Supp. 763, 1996 U.S. Dist. LEXIS 13304, 40 U.S.P.Q.2d (BNA) 1303 (E.D. Va. 1996); 955 F.Supp. 605, 1997 U.S. Dist. LEXIS 2116, 42 U.S.P.Q.2d (BNA) 1161 (E.D. Va. 1997); affd. 170 F.3d 449, 1999 U.S. App. LEXIS 4179, 50 U.S.P.Q.2d 1065 (4<sup>th</sup> Cir. 1999) in Chapter 4.10.4 "Likelihood of Dilution vs Actual Dilution" *supra*.

<sup>46</sup> See § (c)(2)(B) factor (vi) of the proposed Trademark Dilution Revision Act of 2005, which refers to "actual association".

<sup>47</sup> See Chapter 7.2.2 "The Dilution Provisions (i) Well known/famous" *supra*. The proposed Trademark Dilution Revision Act refers to "degree of recognition of the famous mark".

<sup>48</sup> See Chapter 4.10.2 "Distinctiveness" *supra*.

<sup>49</sup> In the proposed Trademark Dilution Revision Act § (c)(2)(B)(i), the degree of similarity between the junior mark and the famous mark can be taken into account to determine whether there was dilution by blurring.



African Act speaks expressly of “a mark which is identical or similar”. It is thus a separate inquiry from the likelihood of dilution.

5. *Third-party usage.* This is also an important factor, as the more the identical or similar trade mark is used by different third-party users, the smaller is the chance that the mark will be diluted by the use of the junior user.
6. *Predatory intent:* If the defendant purposely chose the senior user’s mark to benefit from its goodwill, it can be empirical evidence of a mental association between the two marks. It is evidence that the defendant sees a likelihood of association between the marks.

As has been indicated factors two, three and four - renown of the senior mark, distinctiveness and similarity of the marks – in the South African context are all three normally decided before the court comes to the question of the likelihood of dilution.<sup>50</sup> It is submitted that mental association and third party usage are the only factors which are primarily relevant to determine the likelihood of dilution. Consumer sophistication and predatory intent can be taken into account, but as subordinate questions. When using these factors, excessive protection need not to be feared.<sup>51</sup> Only those marks which truly suffer from dilution, will be protected.

### (iii) Exceptions

The first exception in United States law is quite important as it brings certainty to the area of comparative advertising. Fair use of a famous mark in comparative advertising is non-actionable. This means that fair, non-confusing, truthful use of another’s trade mark in, for example product comparisons, will be allowed. Comparative advertising used in relation to dissimilar goods will fall under section 34(1)(c) of the South African Act.<sup>52</sup> Thus, comparative advertising under this section will be allowed if it does not take unfair

<sup>50</sup> See *SAB International t/a Sabmark International v Laugh It Off Promotions* [2003] 2 All SA 454 (C). See Chapter 6.4.4 “Cases” *supra*.

<sup>51</sup> Compare Chapter 3.5.3 “Role of the Status of the Trade-Mark Proprietor’s Right in the Dilution Debate” *supra*, regarding the fear that the recognition of dilution protection in US law would amount to the “granting of property rights in gross”.

<sup>52</sup> See Chapter 6.4.3 “Comparative Advertising” *supra*.



advantage or cause detriment to the distinctive character or repute of the mark. This also ensures that fair and truthful comparative advertising will be allowed.

### 7.3 SOUTH AFRICA'S DILUTION PROVISIONS COMPARED TO THOSE OF EUROPEAN UNION LAW

#### 7.3.1 INTRODUCTION

In European law, in contrast with that of the United States, the dilution concept is part of the traditional trade-mark infringement section. This makes it difficult to distinguish the dilution rationale from the confusion rationale. The result is that the theory of dilution has never had the chance to develop in its own right. As stated above, the same is true for the South African law.<sup>53</sup>

The comparison in this part will primarily focus on dilution law as set out in the Trademark Directive and applied by the Court of Justice of the European Communities (hereafter CJEC), but with some references to the Benelux and United Kingdom law. The reason for this focus is that all the Member States have to conform to the provisions of the Trademark Directive and that each Member State is moreover bound to interpret its national law in the light of the wording and purpose of the directive.<sup>54</sup>

Judgments of the CJEC and the courts of the United Kingdom have persuasive force in South Africa, although the South African courts are not bound by these authorities.<sup>55</sup> In the case of *Cowbell v ICS Holdings*<sup>56</sup> the Supreme Court of Appeal for example referred to the judgment of the CJEC in the *Canon* case,<sup>57</sup> in deciding what the essential function

<sup>53</sup> See Chapter 7.2.1 "Introduction" *supra*.

<sup>54</sup> Case C-408/01, *Adidas-Salomon A.G. formerly Adidas A.G., Adidas Benelux B.V. v Fitnessworld Trading Ltd.*, 23 October 2003 par 20-22.

<sup>55</sup> See *Beecham Group plc. v Triomed (Pty.) Ltd.* [2002] 4 All SA 193 (SCA); 2003 3 SA 639 (SCA) 645A-D.

<sup>56</sup> *Cowbell A.G. v ICS Holdings (Pty.) Ltd.* 2001 3 SA 941 (SCA) 948A-C.

<sup>57</sup> Case C-39/97, *Canon Kabushiki Kaisha v Metro-Goldwyn-Mayer Inc. (Formerly Pathe Communications Corporation)* [1998] E.C.R. I-5507; [1999] R.P.C. 117, 133; [1999] F.S.R. 332, 350-351.



of a trade mark is. The fact that the Supreme Court refers to recent decisions by the CJEC decided in terms of current European law can be highly commended. This suggests that South African courts will recognise the roots of our current trade-mark law in European law and will be open to seeking guidance from European decisions when developing South African law on dilution.<sup>58</sup>

### 7.3.2 THE DILUTION PROVISIONS

As discussed above,<sup>59</sup> there are two provisions in the Trademark Directive and also the United Kingdom Act which appear to provide dilution protection for trade marks.<sup>60</sup> Article 5(1)(b) of the Directive and section 10(2) of the United Kingdom Act apply where the marks are identical or similar, the goods are identical or similar and there exists "a likelihood of confusion on the part of the public, which *includes the likelihood of association* between the sign and the trade mark."<sup>61</sup> In the *SABEL* case<sup>62</sup> this article was interpreted as follows. The concept of "likelihood of association" forms part of the likelihood of confusion. Mere association is thus not a criterion for infringement. However, the concept of likelihood of confusion must be interpreted broadly using the global appreciation test. A lesser degree of similarity of goods may be offset by a greater degree of similarity of marks. A stronger reputation can also lead to wider protection.<sup>63</sup> The Benelux countries, where it is averred that the concept "likelihood of association" originated, have interpreted this phrase much more widely,<sup>64</sup> while the English courts' interpretation is much narrower than that of the CJEC.<sup>65</sup> As can be detected from the

<sup>58</sup> Webster & Page (1997) par 3.16.

<sup>59</sup> See Chapter 5.5.3 "Dilution Provisions" *supra* and also Chapter 5.7.2.1 "General" *supra*.

<sup>60</sup> Art. 5(1)(b) and 5(2); S 10(2) and 10(3).

<sup>61</sup> Emphasis added.

<sup>62</sup> Case C-251/95, *SABEL B.V. v Puma A.G., Rudolf Dassler Sport* [1997] E.C.R. I-6191; [1998] E.T.M.R. 1. (Judgment of 11 November 1997). See Chapter 5.8.1 "The Interpretation of Articles 4(1)(b) and 5(1)(b)" *supra*.

<sup>63</sup> See also Case C-39/97, *Canon Kabushiki Kaisha v Metro-Goldwyn-Mayer Inc. (Formerly Pathe Communications Corporation)* [1998] E.C.R. I-5507; [1999] R.P.C. 117; Case C-425/98, *Marca Mode CV v Adidas A.G. and Adidas Benelux B.V.*, [2000] E.C.R. I-4861. (Judgment of 22 June 2000); both discussed in Chapter 5.8.1 "The Interpretation of Articles 4(1)(b) and 5(1)(b)" *supra*.

<sup>64</sup> They accepted non-origin, non-confusion based association.

<sup>65</sup> In *Wagamama Ltd. v City Centre Restaurants plc.* [1995] F.S.R. 713; [1996] E.T.M.R. 23 the English Chancery Division decided that the phrase "likelihood of association" does not extend trade-mark



case law and academic commentaries, the concept of “likelihood of association” in the European Union remains a nebulous concept with no certain interpretation and application. Moreover, the effect of its current interpretation by the CJEC is such that this article does not provide dilution protection.

The South African counterpart of this provision gives protection against the unauthorised use of an identical or similar mark on goods that are so similar “that in such use there exists the likelihood of deception or confusion”.<sup>66</sup> The concept of “likelihood of association” is thus absent from the South African statutory infringement provision dealing with confusion. It is submitted that this deviation from the European law is to be welcomed and should not be changed. A lot of controversy and interpretation problems are avoided. Furthermore, there is a clearer distinction in the South African Act, when compared to the Trademark Directive and United Kingdom Act, between the traditional infringement provisions and the dilution provision. Section 34(1)(a) protects against infringement of an identical mark or a mark so nearly resembling it on identical goods and where there is deception or confusion. Section 34(1)(b), although wider in ambit, still protects against the likelihood of deception or confusion. Section 34(1)(c), the dilution provision, then protects well-known marks against unfair advantage and detriment to their distinctive character or repute, notwithstanding the absence of confusion. Despite the fact that there is a clearer distinction in the South African statute between the traditional infringement sections and dilution section, it is suggested that the protection against infringement should be divided into separate sections as in United States law.<sup>67</sup>

The basic characteristics of article 5(2) of the Trademark Directive<sup>68</sup> and section 34(1)(c) of the South African Act<sup>69</sup> can be compared as follows:

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protection to uses that do not result in confusion as to product origin and therefore does not provide dilution protection.

<sup>66</sup> S 34(1)(b) of the South African Trademarks Act 194 of 1993.

<sup>67</sup> See discussion and suggestion in Chapter 7.2.1 “Introduction” *infra*.

<sup>68</sup> See Chapter 5.5.3 “Dilution Provisions” *supra* for the text of this provision.

<sup>69</sup> See Chapter 6.4.2 “The Dilution Provisions” *supra*.



**Article 5(2):**

1. The provision applies to use of the mark without the proprietor's consent.
2. It is restricted to use in the course of trade.
3. The other mark must consist of an identical or similar sign.
4. The other mark must be used in relation to goods or services which are not similar to those for which the mark is registered.
5. The senior mark must have a reputation in the Member State where protection is sought.
6. The use must be without due cause.
7. Such use must take unfair advantage of, or be detrimental to, the distinctive character or the repute of the trade mark.

**Section 34(1)(c):**

1. The use must be unauthorised.
2. The provision is restricted to use in the course of trade.
3. The other mark must be identical or similar.
4. The other mark can be used in relation to any goods or services.
5. The senior mark must be well known in the Republic.
6. The use complained of must be likely to take unfair advantage of, or be detrimental to, the distinctive character or the repute of the trade mark.
7. The provision applies notwithstanding the absence of confusion or deception.

The first three requirements of each provision listed above are the same. The differences will first be summed up and then discussed. The Directive refers to goods or services that are "not similar". The South African provision refers to "any goods or services", thus including both similar and not similar goods. The counterpart of a mark with a reputation in the Member States is a mark which is well known in the Republic. The phrase "without due cause" does not appear in the South African provision. There is a slight, but meaningful difference in the description of the harm. The Directive uses the words "takes unfair advantage of ...", while the South African Act reads "likely to take unfair advantage ...". Furthermore, the South African Act makes it clear that confusion



or deception is not relevant in the context of this section. No such indication is found in the European Directive.

**(i) Identical or similar mark/sign**

The concept of "similarity of marks" has required some interpretation. In *Adidas v Fitnessworld*<sup>70</sup> the CJEC had to answer the question whether a likelihood of confusion was necessary for a finding of a sufficient degree of similarity between the mark and the sign. The court stated that elements of visual, aural or conceptual similarity are necessary for a finding of similarity of marks.<sup>71</sup> The public must make a link between the mark and the sign. This link must be appreciated globally taking into account all factors relevant to the circumstances of the case. Basically the same conclusion was reached in *Inlima's Application*<sup>72</sup> in the United Kingdom.

The Benelux Court<sup>73</sup> has given a broad interpretation to the phrase "similarity of marks". Different factors such as the distinctive power of the mark should be taken into account. The mark and the sign must be compared as a whole and any phonetic, visual or conceptual resemblance that evoke associations between the mark and sign should be taken into account. In this comparison more attention is paid to similarities than to differences, as it is mainly through similarities that associations are made.

In South Africa, the courts have decided that the offending mark should immediately bring to mind the well-known trade mark. The Supreme Court of Appeal warned against too wide an interpretation to prevent creating an unacceptable monopoly. The court said

<sup>70</sup> Case C-408/01, *Adidas-Salomon A.G., formerly Adidas A.G., Adidas Benelux B.V. v Fitnessworld Trading Ltd.*, 23 October 2003 par 24-31.

<sup>71</sup> With reference to Case C-342/97, *Lloyd Schuhfabrik Meyer & Co GmbH v Klijsen Handel B.V.* [1999] E.C.R. I-3819; [1999] E.T.M.R. 690.

<sup>72</sup> *Inlima's Application* [2000] E.T.M.R. 325; [2000] R.P.C. 661 at 664.

<sup>73</sup> *Union/Union Soleure*, Benelux Court of Justice, 20 May 1983 [1984] N.J. 72; [1984] B.I.E. 137.



that the marks must have “a marked (easy to recognise) resemblance or likeness” and not only a slight resemblance.<sup>74</sup>

It is submitted that the Benelux method of determining similarity of marks may well be too lenient with the result that it would in fact be very difficult not to find similarity of marks.<sup>75</sup> As can be seen from the South African case law, a quite narrow interpretation has been chosen. This interpretation may be too narrow and could deprive certain marks of adequate protection. It is thus submitted that the definition of “having a marked resemblance or likeness” should still be used, but that elements of visual, aural and conceptual similarity should be taken into account. Furthermore, the public must make a subconscious connection or association or link between the mark and the sign based on the resemblance between them, but without being confused.

#### (ii) Any goods or services/non-similar goods/services

On the face of it, it seems that the South African provision is broader than its European counterpart. The Trademark Directive refers to “goods or services which are not similar”, while the South African Act refers to “any goods or services”, thus including identical, similar and non-similar goods. However the CJEC in *Davidoff* and *Adidas*<sup>76</sup> gave a broad interpretation to the words of the Directive in the light of its overall scheme and the objectives of the system of which it is a part. The court concluded that marks with a reputation used on identical or similar goods must enjoy at least as extensive protection as where a sign is used for non-similar goods. Thus, in spite of the clear wording of the Directive the dilution protection in article 5(2) pertains to “any goods”.

<sup>74</sup> *Bata Ltd. v Face Fashions* CC 2001 1 SA 844 (SCA) 852B-E. See also *SAB International t/a Sabmark International v Laugh It Off Promotions* [2003] 2 All SA 454 (C) 458d-g; *National Brands Ltd. v Blue Lion Manufacturing Ltd.* unreported judgment TPD 11 May 1999 case 98/23751.

<sup>75</sup> See for example the *Always/Regina* case, where similarity was found based on the overall similarity of the products, despite the fact that the word marks were completely different. *Regina v Procter & Gamble*, Court of Appeal Brussels 27 May 1993, I.E.R. 1993, 112 is discussed in Chapter 5.7.1.6 “Influence of the Trademark Directive on Benelux Law” *supra*.

<sup>76</sup> Case C-292/00, *Davidoff & Cie and Zino Davidoff SA v Gofkid Ltd.*, 9 January 2003; Case C-408/01, *Adidas-Salomon A.G., formerly Adidas A.G., Adidas Benelux B.V. v Fitnessworld Trading Ltd.*, 23 October 2003.



As discussed, the South African dilution provision certainly includes goods and services that are not similar, but can also apparently include identical or similar goods and services. This can potentially mean that section 34(1)(c) can be applied concurrently with section 34(1)(a) and 34(1)(b) of the South African Act.<sup>77</sup> As reasoned above,<sup>78</sup> the dilution provisions are not intended to be used concurrently with either section 34(1)(a) or (b), because this would negate the basic difference between traditional infringement and dilution.<sup>79</sup> It can, however, be used in the alternative as a person who makes an association between marks for purposes of dilution, cannot be confused, and where there is confusion the traditional infringement provisions apply.

This broader application of the dilution doctrine to similar goods and services is to be welcomed. If it were not applicable in the case of identical or similar goods, it would leave a lacuna in the Act where well-known marks used in the context of dissimilar goods are protected against dilution, but would not be in the context of identical or similar goods. Webster and Page are therefore correct in supporting this broader application of the South African dilution provision, but preferring the English position, where the dilution provision and the other traditional infringement provisions are treated as mutually exclusive.<sup>80</sup>

### (iii) Without due cause

In the Benelux countries, this phrase was interpreted in the *Claeryn* case.<sup>81</sup> The court found that "due cause" could only be assumed if there was such a necessity on the part of the alleged infringer to use the mark, that he could not reasonably be required to abstain from such use. There is thus a limitation built into the concept of due cause, but the courts are very reluctant to find "due cause" in the case of unauthorised use. Also in the

<sup>77</sup> *Triomed (Pty.) Ltd. v Beecham Group plc.* [2001] 2 All SA 126 (T) 153-154; 2001 2 SA 522 (T) 555D.

<sup>78</sup> See Chapter 6.4.2 "The Dilution Provisions (ii) Use ....in Relation to Any Goods or Services" *supra*.

<sup>79</sup> See Chapter 3.3 "Traditional Infringement Contrasted with Dilution" *supra* for a complete discussion of the differences between the two concepts.

<sup>80</sup> Webster & Page (1997) par 12.24.2 fn 1.

<sup>81</sup> *Colgate-Palmolive B.V. v NV Koninklijke Distilleerderijen Erven Lucas Bols*, BCJ 1 March 1975 [1975] N.J. 472.



United Kingdom this phrase is very cautiously applied. But it still gives a judicial discretion to the courts and prior use can for example be taken into account. In *Premier Brands*<sup>82</sup> the court said that it is a defence that could be relied on by the defendant, who has to show that his use of the mark was with due cause and also that any advantage or detriment is not without due cause. The court made it clear that “without due cause” does not mean “in good faith”; innocence by itself is therefore not a defence.

It is submitted that a “due cause” clause should be added to the South African dilution provision. It should nevertheless be interpreted cautiously, as in the Benelux countries and the United Kingdom. The benefit of such a provision is that it will give the defendant a fair chance to raise a defence, which, if deserving, will succeed. Although this modification may seem meaningless, it will give a judicial discretion to the courts.

#### (iv) Well known/reputation

It is generally accepted that reputation refers to a lower standard of renown compared to well known. A well-known trade mark is widely or generally known, thus clearly having a reputation. Reputation only means known. Or as put in the *General Motors*<sup>83</sup> case by the CJEC, reputation means that the mark must be known by a significant part of the public concerned in a substantial part of a Member State. This viewpoint was accepted in the United Kingdom.<sup>84</sup>

Article 16(2) of the TRIPS agreement states that in determining whether a trade mark is well known, “account shall be taken of the knowledge of the trade mark in the relevant sector of the public”. The knowledge of the trade mark in the relevant sector can, according to article 16(2) of the TRIPS agreement, also be obtained as “a result of the promotion of the trademark”. This means that the amount of expenditure in advertising

<sup>82</sup> *Premier Brands v Typhoon Europe Ltd.*, High Court of Justice, Chancery Division, 21 January 2000; (2000) 23(5) IPD; [2000] F.S.R. 767 at 789-792.

<sup>83</sup> Case C-375/97, *General Motors Corp. v Yplon SA*, [1998] E.C.R. I-5421; [2000] R.P.C. 572.

<sup>84</sup> *CA Sheimer (M) SDN BHD's Trade Mark Application* [2000] R.P.C. 484 at 504. See Chapter 5.7.2.5 “The Key Concepts of Section 10(3) (iv) Reputation” *supra*.



and the extent of dissemination amongst the public can also be taken into account when determining renown. Market survey evidence can further typically be used to demonstrate repute amongst the relevant public. The definition in the TRIPS agreement corresponds closely to section 35(1A) of the South African Act.<sup>85</sup>

In the *Triomed* and *SAB* cases the interpretation given to “well known” in the *McDonald’s* case in the context of section 35 was also accepted as the standard for section 34(1)(c).<sup>86</sup> As has been explained above,<sup>87</sup> there are good reasons why this interpretation should not be used in the context of section 34(1)(c). The criterion used by the CJEC to determine reputation, which is a lesser standard of renown, is basically the same as the criterion used by the South African courts to determine “well known”. It is therefore submitted that a stricter standard should be applied in South African law to determine “well known” in the context of section 34(1)(c).

**(v) Likely to take/takes unfair advantage of, or be detrimental to, the distinctive character or repute**

Although this requirement looks basically the same in the Trademark Directive, the United Kingdom Act of 1994 and the South African Act, there is one significant difference. The European version uses the words “takes unfair advantage”, while the South African Act reads “likely to take unfair advantage”. In the English case of *DaimlerChrysler v Alavi*<sup>88</sup> it was held that the words “takes unfair advantage” means that actual unfair advantage or detriment is required for a finding under section 10(3) of the United Kingdom Act and not just the likelihood of this happening. As debated in the United States case law the requirement of actual harm makes it practically impossible to establish dilution in all but the most extreme cases.<sup>89</sup> The standard of dilution has not

<sup>85</sup> See Chapter 6.4.2 “The Dilution Provisions (iv) Well known” *supra*.

<sup>86</sup> *Triomed (Pty.) Ltd. Beecham Group plc.* [2001] 2 All SA 126 (T) 153-154; 2001 2 SA 522 (T) 556C-D; *SAB International t/a Sabmark International v Laugh It Off Promotions* [2003] 2 All SA 454 (C) 458i-459b.

<sup>87</sup> See Chapter 6.4.2 “The Dilution Provisions (iv) Well known” *supra*.

<sup>88</sup> *DaimlerChrysler A.G. v Javid Alavi (t/a Merc)*, [2001] R.P.C. 813 at 842.

<sup>89</sup> See Chapter 4.10.4 “Likelihood of Dilution vs Actual Dilution” *supra*.



been discussed by the South African courts thus far and it is submitted that the words of the statute in this regard should be taken at their face value. The standard should thus be a likelihood of dilution, which is also in line with the gradual harm caused by dilution.<sup>90</sup>

Another question relates to the interpretation of the terms “unfair advantage” and “detriment”. As the concepts of unfair advantage and detriment are stated in the alternative, it may mean that they are intended to have different meanings. The South African courts, when confronted with these two concepts, referred back to an English case, which in turn quotes from two German decisions.<sup>91</sup> There is no exact way of defining these two concepts and there is no conclusive test to apply.

Unfair advantage has been described as occurring where someone associates the quality of his goods with another’s prestigious goods with the purpose of exploiting the good reputation of the other person and to enhance his own promotional effort. Or it can be determined by asking what benefit the defendant gained from the use of the mark complained of. Unfair advantage can also refer to the defendant’s state of mind, which can be inferred from his motives and actions.<sup>92</sup>

Detriment occurs when the use of one’s mark impairs the originality and distinctive character of another mark, as well as the advertising effectiveness derived from its uniqueness. In the English case of *Premier Brands* the court stated that the existence of confusion could indicate detriment and that in the absence of confusion some other form of detriment has to be found.<sup>93</sup>

<sup>90</sup> This is also in line with the proposed Trademark Dilution Revision Act of 2005 in the USA.

<sup>91</sup> *Triomed (Pty.) Ltd. v Beecham Group plc.* [2001] 2 All SA 126 (T); 2001 2 SA 522 (T) 556H-557B; [2001] F.S.R. 34, 619 par 135-136; *Premier Brands UK Ltd. v Typhoon Europe Ltd.* [2000] All ER (D) 52, discussed in Chapter 5.7.2.3 “Cases on Section 10(2)” and Chapter 5.7.2.4 “Cases on Section 10(3)” *supra*.

<sup>92</sup> See Chapter 5.7.2.5 “The Key Concepts of Section 10(3) (iii) Unfair Advantage or Detriment” *supra* and also Chapter 6.4.2 “The Dilution Provisions (v) Likely to Take Unfair Advantage of, or be Detrimental to, the Distinctive Character or Repute” *supra*.

<sup>93</sup> See Chapter 5.7.2.5 “The Key Concepts of Section 10(3) (iii) Unfair Advantage or Detriment” *supra* and also Chapter 6.4.2 “The Dilution Provisions (v) Likely to Take Unfair Advantage of, or be Detrimental to, the Distinctive Character or Repute” *supra*.



To prove unfair advantage or detriment it would probably be sufficient to show damage in the form of a positive or negative exploitation of the mark.<sup>94</sup> It can also be said that there must be blurring or tarnishment. In the *SAB* case<sup>95</sup> the court said that where the use of the mark is “obviously offensive”, dilution by tarnishment may occur. The words “use likely to give offence to any class of persons” is interpreted by Webster and Page in the context of section 10(12).<sup>96</sup> They indicate that the wording of the section is extremely wide. They submit that the words refer to marks which *ex facie* offend because of their own content. Furthermore they suggest that the offensive mark should be such as would occasion offence to a reasonable person. Thus, the meaning and content of the words “likely to offend” is far from clear in our law. It is therefore submitted that to bring these words into the dilution inquiry merely brings more uncertainty instead of clarity to this area of the law.

There are advantages in keeping the wording of this part of the section as it is. One reason is that it corresponds with that of the Directive applying to Member States of the European Union. In this event it is submitted that the terms “unfair advantage” and “detriment” should be seen in the alternative and interpreted in the light of the paraphrases above.

However, to give more clarity to this part of the provision, it is proposed that the wording should be changed to the following:

“likely to cause dilution [~~to take unfair advantage of, or be detrimental to,~~] of the distinctive character or the repute of the registered mark, ...”

“Dilution” should then be defined in section 2 (the definitions section) as dilution by blurring or dilution by tarnishment, the primary theories as to how dilution occurs. These two concepts should then also be defined. It is suggested that the definitions used in the

<sup>94</sup> *CA Sheimer (M) SDN BHD's Trade Mark Application* [2000] R.P.C. 484 at 505.

<sup>95</sup> *SAB International t/a Sabmark International v Laugh It Off Promotions* [2003] 2 All SA 454 (C).

<sup>96</sup> Webster & Page (1997) par 6.9.



proposed Trademark Dilution Revision Act of 2005<sup>97</sup> be followed. The definitions will then be as follows:

“Dilution by blurring” is association arising from the similarity between a mark or trade name and a well-known<sup>98</sup> mark that impairs the distinctiveness of the well-known mark.

“Dilution by tarnishment” is association arising from the similarity between a mark or trade name and a well-known mark that harms the reputation of the well-known mark.

It is possible to fit most other recognized types of dilution under either blurring or tarnishment. Use of a trade mark in a generic sense can be classified under blurring, as some commentators already do.<sup>99</sup> Disparagement or imitative dilution could possibly fit under tarnishment.

#### (vi) Notwithstanding the absence of confusion or deception

As has been seen, the Trademark Directive and United Kingdom Act contain no reference in article 5(2) and section 10(3) respectively to confusion. This had led to considerable interpretation problems. In the first English decision on section 10(3), it was held that the application of the dilution section requires that there must be a likelihood of deception or confusion through the use of the offending mark.<sup>100</sup> As stated above,<sup>101</sup> dilution can in fact only occur when confusion as to source or origin is absent. If someone is confused, the mark remains the sole identifier of the senior user's product in his mind. He thus perceives the two marks as representing the same source. Dilution, on the other hand, occurs when the awareness that a specific mark signifies a single product from a single

<sup>97</sup> Trademark Dilution Revision Act of 2005 HR Rep No 683, (9 February 2005).

<sup>98</sup> The Trademark Dilution Revision Act uses the term “famous mark”, but it is recommended *infra* that the term well-known should be retained in the South African Act.

<sup>99</sup> See Chapter 3.4.3 “Genericism/Genericisation” and especially Chapter 3 fn 123 *supra*.

<sup>100</sup> See Chapter 5.7.2.4 “Cases on Section 10(3)” and *Baywatch Productions Co. Inc. v Home Video Channel Ltd.*, [1997] F.S.R. 22. But see for example *Pfizer v Eurofood*, High Court of Justice, Chancery Division, 10 December 1999 and *Premier Brands v Typhoon Europe Ltd.*, High Court of Justice, Chancery Division, 21 January 2000 (2000) 23(5) IPD; [2000] F.S.R. 767 at 788, where it was accepted by the English courts that confusion is not a requirement of s 10(3).

<sup>101</sup> See especially Chapter 3.3 “Traditional Infringement Contrasted with Dilution” *supra*.



source changes to an unmistakable awareness that the same or a similar mark signifies various things from various sources.<sup>102</sup>

The CJEC stated in *SABEL* and *Marca Mode* that article 5(2) does not require the existence of a likelihood of confusion. This was confirmed in *Adidas v Fitnessworld*.<sup>103</sup>

As discussed above and in the previous Chapter<sup>104</sup> the existence of confusion and dilution is mutually exclusive. To avoid any fundamental problems in the interpretation of this part of the section, it is suggested that the wording in the interests of avoiding any ambiguity should be changed to:

*“in [notwithstanding] the absence of confusion or deception.”*

One question then remains. In which category would cases of a well-known mark and a sign on non-similar goods causing confusion fall? The fact that there is some confusion indicates that the goods cannot be too dissimilar. It has been seen that when using the test of global appreciation to determine similarity of marks in article 5(1)(b) of the Trademark Directive, confusion is also taken into account, along with other factors. The result is that a lesser degree of similarity between the goods, can be offset by a greater degree of similarity between the marks. The definition of similar goods is thus stretched. These cases will thus presumably be covered by section 34(1)(b) of the South African Act.

The proposed amendments to section 34(1)(c) should, in the interests of consistency, also be implemented in section 10(17).<sup>105</sup>

<sup>102</sup> Pattishall BW “Dawning Acceptance of the Dilution Rationale for Trade Mark – Trade Identity Protection” (1984) 74 *The Trademark Reporter* 289 at 300, 308; McCarthy JT “The 1996 Federal Anti Dilution Statute” (1998) 16 *Cardozo Arts and Entertainment Law Journal* 587 at 592; McCarthy JT *McCarthy on Trademarks* 4<sup>th</sup> ed (1996) West Group St Paul Minnesota §24:70.

<sup>103</sup> See Chapter 5.8.2 “The Interpretation of Article 5(2)” *supra*.

<sup>104</sup> Chapter 6.4.2 “The Dilution Provisions (vi) Notwithstanding the Absence of Confusion or Deception” *supra*.

<sup>105</sup> See Chapter 6.4.2 “The Dilution Provisions” *supra* for the provisions as currently phrased.



## 7.4 SUMMARY OF RECOMMENDATIONS

The recommendations made in this chapter can be summed up as follows. The dilution provision should be separated from the other (traditional) infringement provisions. The infringement provisions would then be contained in section 34(1)(a) and (b) and the dilution provision in section 34(2),<sup>106</sup> for example.

Similarity of marks should be interpreted more widely than at present. The definition of “having a marked resemblance or likeness” should still be used, but elements of visual, aural or conceptual similarity should be taken into account. Furthermore, the public must make a subconscious connection or association or link between the mark and the sign based on the resemblance between them, but not be confused.

The phrase “any goods or services” should be kept as is, but the dilution provision must be interpreted as mutually exclusive of the other infringement provisions. The phrase “without due cause” should be added to the existing provision as it will give the defendant a fair chance to raise a defence.

The concept of “well-known marks” must be retained, with the reservations referred to above.<sup>107</sup> It is submitted that the eight-factor test contained in the Federal Trademark Dilution Act, can essentially be applied with great success in South African law in determining the concept of “well known” for purposes of the dilution provisions, although it is used in United States federal law to determine fame.<sup>108</sup> As indicated, the eighth factor is not relevant in the South African context, while there may be other factors as set out by Mostert and in the Joint Recommendation that can also be useful.<sup>109</sup>

<sup>106</sup> This will have the effect that the remainder of the provisions in section 34 must also be renumbered.

<sup>107</sup> See Chapter 7.3.2 “The Dilution Provisions (iv) Well known/reputation” *supra*.

<sup>108</sup> See discussion of the factors in Chapter 7.2.2 “The Dilutions Provisions (i) Well known/famous” *supra*.

<sup>109</sup> In the proposed Trademark Dilution Revision Act of 2005 HR Rep No 683, (9 February 2005) the threshold of fame is expanded, thereby denying protection for marks that are only famous in a niche market. Only three fame factors are listed in the new Act. However, “all relevant factors” may still be considered by a court and therefore this legislation will not affect the conclusion reached here. See Chapter 4.10.3 “Famous Marks” *supra*.



The phrase “likely to take unfair advantage of or be detrimental to the distinctive character or repute of the registered mark” should be changed to “likely to cause dilution of the distinctive character of the registered mark”. “Dilution” should then be defined as dilution by blurring or dilution by tarnishment. These two concepts should then in turn also be defined. It is suggested that the definitions used in the proposed Trademark Dilution Revision Act of 2005 be followed. It is possible to fit most other recognized types of dilution under either blurring or tarnishment.

Courts should then use the following factors to determine the likelihood of dilution. The two most important factors are a mental association<sup>110</sup> between the registered mark and the sign and third party usage.<sup>111</sup> Predatory intent and consumer sophistication could be used as subordinate factors.

Finally, the phrase “notwithstanding the absence of confusion or deception” should be changed to “in the absence or confusion or deception”, to emphasise that dilution and confusion are mutually exclusive concepts.

## 7.5 CONCLUSION

Webster and Page state that “while the introduction of the dilution provisions is to be welcomed it is submitted that great care must be taken by our courts in interpreting section 34(1)(c) to ensure that the parameters of this new form of trade mark protection are defined in such a manner that the legitimate interests of proprietors of well-known trade marks are protected while, at the same time, not creating an absolute monopoly or a form of copyright in a trade mark”.<sup>112</sup> The sentiment expressed by Rutherford is that “protection should be available for all trade marks which have acquired an advertising value, irrespective of the nature of the mark or the source of its selling power. Not only

<sup>110</sup> This is also evident from the definitions of “dilution by blurring” and “dilution by tarnishment”.

<sup>111</sup> Both factors are included in the list of factors in the proposed Trademark Dilution Revision Act of 2005 to determine dilution by blurring. See Chapter 4.10.6 “Cases on Blurring” *supra* for a list of the proposed factors.

<sup>112</sup> Webster & Page (1997) par 12.24.



marks which are inherently distinctive but also marks which have acquired a selling power through extensive advertising should enjoy protection".<sup>113</sup>

It is submitted that both these sentiments are addressed by the conclusion to this dissertation. Dilution protection should pick up where the infringement remedy leaves off and not merely provide an easier way for the proprietor to establish an infringement claim in circumstances where a traditional infringement has possibly occurred, while being difficult to prove. This will give trade marks and their proprietors the necessary protection, as well as protecting the interests of consumers and other competitors.

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<sup>113</sup> Rutherford BR "Misappropriation of the Advertising Value of Trade Marks, Trade Names and Service Marks" (1990) 2 *SA Merc LJ* 151 at 162.



## ADDENDUM

### CONSTITUTIONAL COURT OF SOUTH AFRICA

#### LAUGH IT OFF PROMOTIONS CC v SOUTH AFRICAN BREWERIES INTERNATIONAL (FINANCE) B.V. t/a SABMARK INTERNATIONAL and FREEDOM OF EXPRESSION INSTITUTE

CASE CCT 42/04 – 27 MAY 2005

#### 1. INTRODUCTION

The decision of the Constitutional Court (CC) brings to a close the saga between Laugh It Off and SAB that started in 2001. The High Court decision was handed down in 2003,<sup>1</sup> followed by the decision of the Supreme Court of Appeal (SCA) delivered on 16 September 2004<sup>2</sup> and followed finally by the judgment of the Constitutional Court on 27 May 2005.

Initially, only the judgment of the High Court was discussed in this dissertation as the SCA judgment was not available in time for it to be included in the version submitted for examination. Comments on this judgment were, however, included in Chapters 6 and 7 during the final editing of the dissertation. It must be noted that the SCA judgment substantially confirmed that of the court *a quo* and therefore did not require substantial changes to the dissertation. Subsequently, after the examiners had completed their reports, the Constitutional Court overturned the judgment of the SCA. It was then

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<sup>1</sup> *SAB International t/a Sabmark International v Laugh It Off Promotions* [2003] 2 All SA 454 (C).

<sup>2</sup> *Laugh It Off Promotions CC v SA Breweries International (Finance) BV t/a Sabmark International* [2004] 4 All SA 151 (SCA); 2005 2 SA 46 (SCA).



decided, in the light of the importance of the CC judgment, to deal with it in an addendum.

## **2. FACTUAL BACKGROUND**

The facts of the case are set out in Chapter 6 of the dissertation and are therefore not repeated here.<sup>3</sup>

## **3. THE ISSUE BEFORE THE COURT**

The CC sees this case as a “matter of the proper interface between the guarantee of free expression enshrined in section 16(1) of the Constitution and the protection of intellectual property rights attaching to registered trade marks as envisaged by section 34(1)(c) of the Trade Marks Act 194 of 1993.”<sup>4</sup>

## **4. THE JUDGMENT**

The CC in the light of concessions made by the applicant noted that in relation to section 34(1)(c) the only part that remained in dispute, is whether the respondent had properly demonstrated the likelihood of detriment to the repute of the marks in question.<sup>5</sup> To ascertain the purpose of the section, the court considered different opinions and came to the conclusion that it “strives to protect the unique identity and reputation” of a trade mark. These characteristics support the economic value that resides in the mark’s selling power.

In paragraph 43 Moseneke J then spelt out the way in which the court contemplated to reconcile dilution protection (in section 34(1)(c)) and freedom of expression (in section

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<sup>3</sup> Chapter 6.4.4 “Cases”.

<sup>4</sup> Par 1 of the judgment.

<sup>5</sup> Par 35. In par 41 Moseneke J explains that where the repute of a trade mark is at stake, it is a case of tarnishment. The SCA already found that this case was concerned with tarnishment of the BLACK LABEL marks.



16 of the Constitution). He said that "under our constitutional democracy, the requirements of the section ought to be understood through the prism of the Constitution and specifically that of the free expression guarantee." He then found that the approach of the SCA was flawed as it first found an infringement under section 34 and only thereafter determined whether the infringement could be excused by an assertion of freedom of expression.

In the next paragraph Moseneke J continued to explain how the court should approach the current matter. "A finding of unfair use or likelihood of detriment to the repute of the marks hinges on whether the offending expression is protected under section 16(1) of the Constitution or not." He also stressed the importance of the right to free expression.

The court felt obliged to delineate the bounds of the constitutional guarantee of free expression "generously". The court explained that section 16 of the Constitution has two parts: Firstly, the section sets out expression protected under the Constitution and secondly, lists three categories of expression which are expressly excluded from constitutional protection.<sup>6</sup> The court then took section 34(1)(c) under scrutiny. It found that this section in effect limits the right to free expression. The court then said that this section must be constructed in a manner "most compatible with the right to free expression".<sup>7</sup> The dilution section must "bear a meaning which is the least destructive of other entrenched rights."

The sentiment of the court is clear: no absolute monopoly or form of copyright in a trade mark must be created. The court accepted that section 34(1)(c) has internal limitations.<sup>8</sup>

The court then had to decide whether there was the likelihood of detriment. It referred to the SCA and High Court judgments, which found a likelihood of detriment "on the footing that the message on the T-shirts would probably create in the minds of consumers

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<sup>6</sup> Par 47.

<sup>7</sup> Par 48.

<sup>8</sup> There must be "unfair advantage" or "unfair detriment" and there must be substantial harm to the uniqueness and repute of the mark (see par 49).



a particularly unwholesome, unsavoury and degrading association". However the CC held that "probability is a matter of inference to be made from facts consistent with the inference". The court said that no such facts had been pleaded. The court said further that "the constitutional guarantee of free expression is available to all", "even where others may deem the expression unsavoury, unwholesome or degrading".<sup>9</sup>

The court then came to the following conclusion: "[I]n a claim under section 34(1)(c), a party that seeks to oust an expressive conduct protected under the Constitution must, on the facts, establish a *likelihood of substantial economic detriment* to the claimant's mark."<sup>10</sup> The claim of infringement of the respondent's marks was therefore dismissed, because no likelihood of economic prejudice had been established. For this reason, Moseneke J decided that "the fairness of parody or satire or lampooning does not fall for consideration".<sup>11</sup>

The appeal against the judgment of the SCA thus succeeded.

Sachs J delivered a concurring opinion. Although he agreed with the order made by Moseneke J, he believed that the appeal should be upheld "on more substantial grounds".<sup>12</sup> He focused his opinion on free expression in the form of parody. At the outset he declared that from his research it is clear that internationally "court decisions on the topic have been as variable as judicial humour itself".<sup>13</sup>

Sachs J first went into a lengthy, but illuminating, discussion of what parody entails. He then declared that there are parodies that cause unfair detriment and parodies that do not. "Everything will depend on the context".<sup>14</sup> Therefore, each case must be decided on its own merits, by balancing the objectives ("ends") of trade-mark law on the one hand and

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<sup>9</sup> Par 55.

<sup>10</sup> Par 56. Emphasis added.

<sup>11</sup> Par 66.

<sup>12</sup> Par 73 and 74.

<sup>13</sup> Par 70.

<sup>14</sup> Par 81.



the values of free speech on the other. He then set out the factors that should be taken into account when balancing these two rights.

After considering the facts, Sachs J concluded: "The only possible sting as far as trademark protection is concerned relates to the possible negative impact of the sale of the T-shirts on the image of Carling Black Label. It could be said that the imputation of racist labour practices in the past would tarnish the goodwill associated with the trademark thereby creating unfair detriment." But he found that there was no proof that these imputations "would in any way affect the eagerness of present day customers to down another glass of Carling Black Label".<sup>15</sup> Thus, according to Sachs J, there was virtually no harm to the marketability of the beer.<sup>16</sup> Furthermore, he believed that parodies serve an important public function, which should not easily be suppressed and that humour is one of the great solvents of democracy.<sup>17</sup>

## 5. COMMENTS ON THE JUDGMENT

As the writer comes from a commercial law background, the comments expressed on this judgment must be read subject to one qualification, namely that the writer does not profess to have any specialist knowledge in the field of constitutional law.

The writer believes that believe that the interplay between free expression and intellectual property in the form of trade marks has important implications for the workings of our economy and is of concern to the broader public. Moseneke J stated in the first paragraph of the judgment that the role of the court in this case was to find the proper balance between the guarantee of free expression and the protection of intellectual property rights. The writer agrees and also accepts, as the judgment further explains, that section 34(1)(c) must be construed in the light of the Constitution and applied in a manner that does not unduly trample upon freedom of expression. But it is clear from the

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<sup>15</sup> Par 97, 98.

<sup>16</sup> Par 101.

<sup>17</sup> Par 109.



outset that the court ranked the constitutional right of freedom of expression as almost an absolute right and then construed section 34(1)(c) to be subordinate to this conviction.

The writer considers the approach of the Supreme Court of Appeal,<sup>18</sup> namely to first find an infringement under section 34(1)(c) and only thereafter to determine whether the infringement is excused by an assertion of freedom of expression, to be correct. This is also the approach in the United States. In the Federal Trademark Dilution Act infringement by dilution is first described and then three exceptions to liability are listed.<sup>19</sup> The second one is “non-commercial use of a mark”. As a result of this provision the use of a famous trade mark in *non-commercial speech*, will be absolutely legal, thus constitutionally protected. In certain instances parodies can qualify as non-commercial speech. Therefore, the question in each case will be whether the parody can be seen as non-commercial speech or not.<sup>20</sup>

## 5.1 “SUBSTANTIAL ECONOMIC DETRIMENT”

Moseneke J, with whom the other members of the CC concurred, declared in paragraph 56 of the judgment that to succeed on a claim in terms of section 34(1)(c), a party that “seeks to oust an expressive conduct protected under the Constitution” must establish on the facts “a likelihood of *substantial economic detriment*”.<sup>21</sup> The CC thus brings into the South African law on trade-mark dilution a new threshold for the finding of an infringement based on use “likely to be detrimental” to the repute of a registered mark. This standard is not required in any of the other jurisdictions reviewed in this dissertation. The probability of economic or commercial harm is not a requirement under UK law or the law of the European Union. Even in the *Moseley* case<sup>22</sup> in the United States, which required a showing of actual dilution, the court made it clear that actual economic injury

<sup>18</sup> *Laugh It Off Promotions CC v SA Breweries International (Finance) BV t/a Sabmark International* [2004] 4 All SA 151 (SCA).

<sup>19</sup> See Chapter 4.7.3 “Exceptions to Liability Under the Act”.

<sup>20</sup> Compare however the views expressed by Sachs J in par 102 of his judgment.

<sup>21</sup> In par 51 this conclusion was expressed in other words. See next paragraph.

<sup>22</sup> *Moseley v. V Secret Catalogue, Inc.*, 123 S. Ct. 1115 (2003). See Chapter 4.10.4 “Likelihood of Dilution vs Actual Dilution”.



is not required. Also the proposed Trademark Dilution Revision Act in the USA, which set the standard for dilution as "a likelihood of dilution", states explicitly that the "presence or absence ... of actual economic injury" makes no difference when deciding the dilution question.

In paragraph 51 Moseneke J said that "seen through the lens of the Constitution, the likely prejudice or detriment required by the section must be restricted to material harm in the commercial sense" and in paragraph 56 that "in an open democracy valuable expressive acts in public ought not to be lightly trampled upon by marginal detriment or harm unrelated to the commercial value that vests in the mark itself". The implication of this and other statements in the judgment, could be that "material harm in the commercial sense" is only required in dilution claims when the protection of Constitutional values is at stake. It is submitted that this was not the intention of the court. In paragraph 54 Moseneke J said that "it is clear that even without reference to the dictates of the Constitution our courts rightly tend to determine likelihood of detriment to the selling appeal of a mark in the light of established facts and not bald allegations." It is submitted that the CC in the present case set a general requirement of "economic detriment" that will in future pertain to all trade-mark dilution cases. This appears to create an untenable situation for the owners of trade marks as the criterion for a finding of dilution will be too high to reach.

The judgment is also unclear on how "a likelihood of substantial economic detriment" must be proved. The CC found that there were no facts on which to establish the probability of trade or commercial harm or the likelihood of future commercial detriment. The court repeatedly referred to "economic and trade harm". The only indication of the type of proof required by the court is given in paragraph 58 where the court said that "no evidence, direct or inferential, was adduced to establish likelihood either in the sense of unfavourable associations that have been created between the registered marks and the illustration on the T-shirts, or in the context of a likelihood of loss of sales by virtue of the reduced commercial magnetism of the mark". To prove "unfavourable associations" consumer surveys could probably be used, but it is generally known that the acceptance



of these surveys by a court is problematic. A "likelihood of loss of sales" can then arguably only be proved by financial statements, but "a loss of sales" will only show after dilution has actually taken place and this is not the standard for dilution. The requirement imposed by the CC will defeat the purpose of the dilution provision.

## 5.2 TARNISHMENT

It is true that the qualities of a trade mark that are protected by the dilution provisions are its commercial magnetism and selling power. Both the SCA and the CC found that the form of dilution that was in issue in the case was tarnishment.<sup>23</sup> Tarnishment occurs where the quality which one associates with a trade mark is impaired. This can happen, in the context of this case, where the trade mark is portrayed in an unwholesome or unsavoury way, which gives rise to unflattering thoughts about the plaintiff's product and thus a diminishment of the reputation and commercial value of the trade mark. From all the definitions of tarnishment it is clear that tarnishment occurs the moment that the positive associations attached to the mark are degraded. The harm caused by tarnishment is also more immediate than the gradual type of harm associated with blurring. It is therefore important to protect a mark from tarnishment before the harm is done.

The *Laugh It Off* scenario brings to mind one of the most well-known cases on tarnishment, namely *Coca-Cola Co. v. Gemini Rising, Inc.*,<sup>24</sup> where the court enjoined the use of the slogan ENJOY COCAINE on a poster in the same colour and script as the famous, registered ENJOY COCA-COLA trade-marked slogan. A freedom of expression defence was also raised by the defendant in this case, but was rejected by the court.

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<sup>23</sup> See par 42 of the CC judgment.

<sup>24</sup> *Coca-Cola Co. v. Gemini Rising, Inc.*, 346 F.Supp. 1183, 175 U.S.P.Q. 56 (E.D.N.Y. 1972). See Chapter 3.4.2 "Tarnishment". The court found that the plaintiff "has made a sufficiently clear showing of need for immediate protection of its trademark and business reputation to warrant preliminary injunctive relief." To obtain injunctive relief *pendente lite* in a trade-mark case a plaintiff must show a reasonable probability of success at the subsequent trial.



Another example, even more appropriate to the case under discussion, is provided by the case of *Anheuser-Busch, Inc., v. Andy's Sportswear, Inc.*<sup>25</sup> The plaintiff, also a brewing company, averred that the T-shirts sold by the defendant, a sportswear manufacturer, diluted its BUDWEISER trade mark. The defendant manufactured and distributed BUTTWISER T-shirts. The court recognised that plaintiff's trade mark was "unquestionably famous". The court accepted that the plaintiff had at least raised serious questions about the negative effect of the defendant's T-shirts on its trade mark and then granted a temporary restraining order.<sup>26</sup>

### 5.3 LIKELIHOOD OF DILUTION VS ACTUAL DILUTION

The CC correctly interpreted section 34(1)(c) as to require only the likelihood of loss and not actual loss.<sup>27</sup> The court, however, stated that this is in contrast to the position in the UK, European Union and under the US Federal Law. This statement is not completely correct.

It is true that actual dilution was required in the UK in the case of *DaimlerChrysler v Alavi*.<sup>28</sup> The court held the opinion that actual unfair advantage or detriment is required for an infringement of section 10(3) of the UK Act.<sup>29</sup> However, this is not completely true for the European Union. Although article 5(2) uses the words "takes unfair advantage of, or is detrimental to", the case referred to by the CC in support of its argument that actual dilution is required, namely *General Motors v Yplon*,<sup>30</sup> concerned the interpretation of "reputation" and not the dilution standard. The only place in this judgment where reference was made to actual dilution was in the submission of the United Kingdom Government in paragraph 18 of the judgment.<sup>31</sup> No other cases decided

<sup>25</sup> *Anheuser-Busch, Inc., v. Andy's Sportswear, Inc.*, 40 U.S.P.Q.2d 1542 (N.D. Cal. 1996).

<sup>26</sup> A temporary restraining order is issued pending a preliminary injunction hearing.

<sup>27</sup> Par 54.

<sup>28</sup> *DaimlerChrysler A.G. v Javid Alavi (t/a Merc)*, [2001] R.P.C. 813 at 842. See discussion in Chapter 5.7.2.5 "The Key Concepts of Section 10(3) (iii) Unfair Advantage or Detriment".

<sup>29</sup> "The section ... is concerned with actual effects, not risks or likelihoods".

<sup>30</sup> Case C-375/97, *General Motors Corp. v Yplon SA*, [1998] E.C.R. I-5421; [2000] R.P.C. 572.

<sup>31</sup> The point received brief consideration in the Opinion of Advocate General Jacobs on this case. He interpreted article 5(2) as to require actual dilution.



by the Court of Justice of the European Communities have yet interpreted the standard for dilution set in article 5(2).

With regard to the position in the United States the CC referred to the decision in *Moseley v V Secret Catalogue*.<sup>32</sup> It is true that the Supreme Court held that the Federal Trademark Dilution Act unambiguously requires a showing of actual dilution, but subsequently in February 2005 the Trademark Dilution Revision Act was introduced in the House of Representatives. This Act explicitly defines dilution as use of a mark "likely to cause dilution by blurring or dilution by tarnishment". Although not yet enacted, the indications are that it will be enacted soon.<sup>33</sup>

#### 5.4 EXCLUSIONS IN SECTION 16

In section 16 of the Constitution three categories of expression which are expressly excluded from constitutional protection are set out. Section 16(2)(c) states that the free expression right does not extend to

"advocacy of hatred that is based on race, ethnicity, gender or religion, and that constitutes incitement to cause harm."

Although the court referred in paragraph 47 of the decision to the fact that the free expression right is limited by the instances set out in section 16(2), the court did not elaborate on this subsection. Cleaver J, in the High Court decision found that the conduct of Laugh It Off *borders on hate speech and was aggravated by using the race factor*.<sup>34</sup> It is submitted that even if the CC followed the procedure regarding the balancing of interests set out in paragraph 44 of its judgment, it should have discussed, in the light of the finding of Cleaver J, the exception referred to above. It is submitted that the conduct

<sup>32</sup> *Moseley v. V Secret Catalogue, Inc.*, 123 S. Ct. 1115 (2003). See Chapter 4.10.4 "Likelihood of Dilution vs Actual Dilution" for a discussion of this case.

<sup>33</sup> See Chapter 4.10.4 "Likelihood of Dilution vs Actual Dilution".

<sup>34</sup> *SAB International t/a Sabmark International v Laugh It Off Promotions* [2003] 2 All SA 454 (C) 462j-463e. The words used by the applicant are "Black Labour", "White Guilt", "Africa's lusty lively exploitation since 1652" and "No regard given worldwide".



of Laugh It Off falls within section 16(2)(c) and the case against it should therefore have been dismissed.<sup>35</sup>

## 5.5 PARODY

Parodies of famous trade marks are today quite common. The question is how to deal with parodies, especially in the light of trade-mark dilution law vs freedom of expression. Although, in the United States of America, editorial or artistic parodies of famous trade marks are today frequently allowed, the First Amendment is less protective of parodies that identify a commercial product, such as clothing.<sup>36</sup>

Some conditions have been identified before a parody may be validly accepted as a defence to trade-mark infringement.<sup>37</sup> There must not be any risk of confusion with the parodied trade mark, but the parodying sign must create a link with the parodied trade mark. This link must, however, be subtle and must make the consumer laugh or at least react. The parodied mark must have a certain degree of fame. The conduct of the author of the parody must not be aimed exclusively at making a profit. This condition is arguably the only justifiable "excuse" for the conduct of Laugh It Off.

Morel-Chevillet came to the conclusion, after a comparative review of case law in various jurisdictions, that there is an "extremely limited space accorded, in the context of trademarks, to freedom of speech".<sup>38</sup> It is submitted that the judgment of the CC in *Laugh It Off*, opens up this space too widely and that freedom of speech too easily got the upper hand.

Examples from other jurisdictions where courts found that parody constituted trade-mark infringement include the following. In Italy the famous AGIP trade mark was used on T-

<sup>35</sup> Compare however par 98 of the judgment of Sachs J.

<sup>36</sup> The second exception identified in the Federal Trademark Dilution Act is "non-commercial use of a mark". See the discussion on how it is interpreted in Chapter 4.7.3 "Exceptions to Liability under the Act", especially in the BARBIE case, *Mattel, Inc. v. MCA Records, Inc.* 296 F.3d 894 (9<sup>th</sup> Cir. 2002).

<sup>37</sup> Morel-Chevillet L "Can Humour Survive?" (June 2004) *Trademark World* 38-42.

<sup>38</sup> Morel-Chevillet (2004) 39.



shirts. The slogan ACID SELF AREA together with the six-legged Agip dog were used.<sup>39</sup> The author of the parody had used the phonetic and visual aspects of the famous mark to refer not to combustibles, but to drugs. The Court found trade-mark infringement as the parodying sign was likely to affect the Agip Company's reputation adversely.

Other examples where the parody was found to infringe on a trade mark, are ENJOY COCAINE/ENJOY COCA COLA; GENITAL ELECTRIC/GENERAL ELECTRIC; JUST DID IT/JUST DO IT; and ONETELFUCK/ONETEL.<sup>40</sup>

Reverting to the "non-commercial use" exception, in all the cases that the writer could trace where the parody was reproduced on T-shirts, the court found that the author of the parody had a commercial aim. Examples are BUDWEISER/BUTTWISER; HARD RAIN CAFÉ/HARD ROCK CAFÉ; MUTANT OF OMAHA/MUTUAL OF OMAHA and the use of the MONSIEUR PROPRE character.<sup>41</sup> Trade-mark parodies are however lawful when it can be shown that they were not used for commercial gain.

In the *Laugh It Off* case the respondent contended that the objective of its enterprise was to get a message across and that the sale of the T-shirts was only necessary for sustainability. That was also the finding of Sachs J.<sup>42</sup> That may be true, but the close corporation in the writer's view was still definitely founded with the intention of commercial gain. To hold otherwise, sounds just too noble.

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<sup>39</sup> *Trib. Milan, Agip Petroli s.p.a. v. Dig.It. International s.r.l.*, 4 March 1999, *Giur, Ann. Dir. Ind.* 1999.

<sup>40</sup> See Morel-Chevillet (2004) 40.

<sup>41</sup> See Morel-Chevillet (2004) 41.

<sup>42</sup> Par 102.



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